



**Sarah Baartman**

**DISTRICT MUNICIPALITY**

*Province of the Eastern Cape*

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*progress through development*

# **BUDGET RELATED POLICIES**

**2017/2018**

# **POLICIES**

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# **BUDGET POLICY**

**May 2017**

## **BUDGET POLICY**

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## **BUDGET POLICY**

### **PART 1.OBJECTIVE**

To set out the budgeting principles which the municipality will follow in preparing each annual budget, as well as the responsibilities of the chief financial officer in compiling such budget.

### **PART 2.BUDGETING PRINCIPLES TO BE FOLLOWED**

Except in so far as capital projects represent a contractual commitment to the municipality extending over more than one financial year, the annual capital budget shall be prepared from a zero base.

The capital budget component of the annual or adjustments budget shall only be approved by the council if it has been properly balanced, that is, if the sources of finance which are realistically envisaged to fund the budget equal the proposed capital expenses.

Before approving the capital budget component of the annual or adjustments budget, the council shall consider the impact on the present and future operating budgets of the municipality in relation to finance charges to be incurred on external loans, depreciation of fixed assets, maintenance of fixed assets, and any other ordinary operational expenses associated with any item on such capital budget. In addition, the council shall consider the likely impact of such operation expenses – net of any revenues expected to be generated.

The municipality shall establish and maintain a provision for accrued leave entitlements equal to 100% of the accrued leave entitlement of officials as at 30 June of each financial year, and shall budget appropriately for contributions to such provision in each annual and adjustments budget.

The municipality shall establish and maintain a provision for bad debts in accordance with its Credit Control and Debt Collection policy, and shall budget appropriately for contributions to such provision in each annual and adjustments budget.

All expenses, including depreciation expenses, Long term continued medical care liability, etc, shall be cash-funded. The cash received in respect of depreciation expenses on fixed assets financed from external borrowings shall be transferred to the investments account.

Finance charges payable by the municipality shall be apportioned between departments or votes on the basis of the proportion at the last balance sheet date of the carrying value of the fixed assets belonging to such department or vote to the aggregate carrying value of all fixed assets in the municipality. However, where it is the council's policy to raise external loans only for the financing of fixed assets in specified council services, finance charges shall be charged to or apportioned only between the departments or votes relating to such services.

Depreciation and finance charges together shall not exceed 20% of the aggregate expenses budgeted for in the operating budget component of each annual or adjustments budget.

The allocation of interest earned on the municipality's investments shall be budgeted for in terms of the banking and investment policy.

The municipality shall adequately provide in each annual and adjustments budget for the maintenance of its fixed assets in accordance with its fixed asset management and accounting policy.

In the preparation of the draft operating budget component of the annual budget, the allowable budgetary increment shall relate to the total amount provided for each budget vote, and the head

of the department, service or function concerned shall have the right to allocate the total budgeted amount to the line-items within such vote, except in so far as the line-item provisions relate to matters determined by the chief financial officer in terms of the municipality's approved policies and contractual and statutory commitments (for example, depreciation charges, finance charges, insurance costs, skills development levies payable).

Notwithstanding the preceding principle, the budget for salaries, allowances and salaries-related benefits shall be separately prepared

The head of the department, service or function to which each budget vote relates shall justify the allocation of the aggregate budget for such vote to the various line-items within the vote to the mayoral committee responsible for the department, service or function concerned. In motivating the allocations made to and within the vote, the head of department, service or function concerned shall provide the mayoral committee with appropriate quarterly performance indicators and service delivery targets pertaining to the budget. Such indicators and targets shall be prepared with the approval of the municipal manager and the mayor.

**PART 3. RESPONSIBILITIES OF THE CHIEF FINANCIAL OFFICER (ASSUMING REQUIRED DELEGATIONS BY ACCOUNTING OFFICER IN PLACE)**

Without derogating in any way from the legal responsibilities of the municipal manager as accounting officer, the chief financial officer shall be responsible for preparing the draft annual capital and operating budgets (including the budget components required for the ensuing financial years), any required adjustments budgets, the projections of revenues and expenses for the service delivery and budget implementation plan (including the alignment of such projections with the cash management programme prepared in terms of the banking and investments policy), and shall be accountable to the municipal manager in regard to the performance of these functions.

The municipal manager shall ensure that all heads of departments provide the inputs required by the chief financial officer into these budget processes.

The chief financial officer shall draft the budget timetable for the ensuing financial year for the mayor's approval, and shall indicate in such timetable the target dates for the draft revision of the annual budget and the preparation of the annual budget for the ensuing financial year, which target dates shall follow the prescriptions of the Municipal Finance Management Act and Budget Regulations, and target dates for the submission of all the budget-related documentation to the mayor, finance committee, executive committee and council.

Except where the chief financial officer, with the consent of the mayor and municipal manager, decides otherwise, the sequence in which each annual budget and adjustments budget shall be prepared, shall be: first, the capital component, and second, the operating component. The operating component shall duly reflect the impact of the capital component on:

- Depreciation charges;
- Repairs and maintenance expenses;
- Interest payable on external borrowings; and
- Other operating expenses.

In preparing the operating budget, the chief financial officer shall determine the number and type of votes to be used and the line-items to be shown under each vote, provided that in so doing the chief financial officer shall properly and adequately reflect the organizational structure of the municipality, and further in so doing shall comply – in so far as the organizational structure permits – also with the prescribed budget format of National Treasury.

The chief financial officer shall determine the depreciation expenses to be charged to each vote, the apportionment of interest payable to the appropriate votes, the estimates of withdrawals from (claims) and contributions reserves, and the contributions to the provisions for bad debts and accrued leave entitlements.

The chief financial officer shall also, again with the approval of the mayor and the municipal manager, and having regard to the municipality's current financial performance, determine the budget assumptions and recommended aggregate growth factor(s) according to which the budgets for the various votes shall be drafted and provide guidance on the sustainability of the municipality based on different budget scenarios.

The chief financial officer shall compile budget reports in terms of the MFMA and Budget Regulations, with recommendations, comparing actual results with budgeted projections, and the heads of departments shall timeously and adequately furnish the chief financial officer with all explanations required for deviations from the budget. The chief financial officer shall submit these monthly reports to the mayor, finance committee and executive committee, and all other prescribed parties, in accordance with the prescriptions of the Municipal Finance Management Act.

The chief financial officer shall provide technical and administrative support to the mayor in the preparation and approval of the annual and adjustment budgets, as well as in the consultative processes, which must precede the approval of such budgets.

The accounting officer shall ensure that the annual and adjustments budgets comply with the requirements of the National Treasury reflect the budget priorities determined by the mayor, are aligned with the IDP, and comply with all budget-related policies, and shall make recommendations to the mayor on the revision of the IDP and the budget-related policies where these are indicated.

The chief financial officer shall make recommendations on the financing of the draft capital budget for the ensuing and future financial years, indicating the impact of viable alternative financing scenarios on future expenses, and specifically commenting on the relative financial merits of internal and external financing options.

The chief financial officer shall determine the basis for allocating overhead expenses not directly chargeable to votes. The expenses associated with the democratic process shall be allocated to a separate vote, and shall not be charged out as an overhead.

The chief financial officer shall ensure that the allocations from other organs of state are properly reflected in the annual and adjustments budget, and that the estimated expenses against such allocations (other than the equitable share) are appropriately recorded.

#### **PART 4.ANNEXURE: LEGAL REQUIREMENTS IN TERMS OF MFMA**

##### **Section 15 Appropriation of funds for expenditure**

Expenses may only be incurred in terms of the approved annual budget (or adjustments budget) and within the limits of the amounts appropriated for each budget vote.

##### **Section 16 Annual budgets**

The Council of the municipality must approve the annual budget before the start of the financial year to which it relates.

The Mayor must table the annual budget at least ninety days before the start of such financial year.

The capital budget may extend over three years, provided that it is separated into annual appropriations for that period.

##### **Section 17 Contents of annual budgets and supporting documents**

The budget must be in the prescribed format, and must be divided into a capital and an operating budget.

The budget must reflect the realistically expected revenues by major source for the budget year concerned.

The expenses reflected in the budget must be divided into votes.

The budget must also contain the foregoing information for the two financial years following the financial year to which the budget relates, as well as the actual revenues and expenses for the year before the current year, and the estimated revenues and expenses for the current year.

The budget must be accompanied by all the following documents:

- draft resolutions approving the budget and levying property rates, other taxes and tariffs for the financial year concerned;
- draft resolutions (where applicable) amending the IDP and the budget-related policies;
- measurable performance objectives for each budget vote, taking into account the municipality's IDP;
- the projected cash flows for the financial year by revenue sources and expenditure votes;
- any proposed amendments to the IDP;
- any proposed amendments to the budget-related policies;
- the cost to the municipality of the salaries, allowances and other benefits of its political office bearers and other councillors, the municipal manager, the chief financial officer, and other senior managers;
- particulars of any proposed allocations or grants to other municipalities, municipal entities, external mechanisms assisting the municipality in service delivery, other organs of state, and organizations such as NGOs, welfare institutions and so on;
- particulars of the municipality's investments; and
- various information in regard to municipal entities under the shared or sole control of the municipality.

## **Section 18 Funding of expenditures**

The budget may be financed only from:

- realistically expected revenues, based on current and previous collection levels;
- cash-backed funds available from previous surpluses where such funds are not required for other purposes; and
- borrowed funds in respect of the capital budget only.

## **Section 19 Capital projects**

A municipality may spend money on a capital project only if the money for the project (including the cost of any required feasibility studies) has been appropriated in the capital budget.

The total cost of the project must also be approved by the Council.

The envisaged sources of funding for the capital budget must be properly considered, and the Council must be satisfied that this funding is available and has not been committed for other purposes.

Before approving a capital project, the Council must consider the projected cost of the project over all the ensuing financial years until the project becomes operational, as well as the future operational costs and any revenues which may arise in respect of such project, including the likely future impact on property rates and service tariffs.

## **Section 20 Matters to be prescribed**

The Minister of Finance must prescribe the form of the annual budget, and may further prescribe a variety of other matters, including the inflation projections which the municipality must use in compiling its budget.

The Minister may also prescribe uniform norms and standards in regard to the setting of tariffs where a municipality entity or other external mechanisms is used to perform a municipal service; and may also take appropriate steps to ensure that a municipality does not, in exceeding its fiscal powers, materially and unreasonably prejudice national economic policies (particularly on inflation, administered pricing and equity), economic activities across municipal boundaries, and the national mobility of goods, services, capital or labour.

## **Section 21 Budget preparation process**

The Mayor of the municipality must:

- Co-ordinate the processes for preparing the annual budget, and for reviewing the municipality's IDP and budget-related policies to ensure that the budget, the IDP, and the policies are mutually consistent and credible.
- At least ten months before the start of the ensuing financial year, table in the Council the time schedule with key deadlines for the preparation, tabling and approval of the following year's annual budget, the review of the IDP and budget-related policies, and the consultative processes required in the approval of the budget.
- When preparing the annual budget, take into account the municipality's IDP, the national budget, provincial budget, the National Government's fiscal and macro-economic policies, and the annual Division of Revenue Act.
- Take all reasonable steps to ensure that the municipality revises its IDP in line with realistic revenue and expenditure projections for future years.

- Consult the district municipality (if it is a local municipality) and all other local municipalities in the district, and all other local municipalities in the district if it is a district municipality.
- Consult the National Treasury when requested, the Provincial Treasury, and such other provincial and national organs of state as may be prescribed.
- Provide on request any budget-related information to the National Treasury, other national and provincial organs of state, and any other municipality affected by the budget.

## **Section 22 Publication of annual budgets**

Immediately after the annual budget has been tabled, the Municipal Manager must make this budget and other budget-related documentation public, and must invite the local community to submit representations in regard to such budget.

The Municipal Manager must also immediately submit the tabled budget in both printed and electronic formats to the National Treasury, the Provincial Treasury, and in either format to prescribed national and provincial organs of state and other municipalities affected by the budget.

## **Section 23 Consultations on tabled budgets**

After the budget has been tabled, the Council of the municipality must consider the views of the local community, the National Treasury, the Provincial Treasury, and any provincial or national organs of state or municipalities which have made submissions on the budget.

After considering these views, the Council must give the Mayor the opportunity to respond to the submissions received, and – if necessary – revise the budget and table the relevant amendments for consideration by the Council.

The National Treasury may issue guidelines on the manner in which the Council must process the annual budget, including guidelines on the formation of a committee of the Council to consider the budget and hold public hearings. Such guidelines shall be binding only if they are adopted by the Council.

## **Section 24 Approval of annual budgets**

The Council must consider approval of the budget at least thirty days before the start of the financial year to which such budget relates.

The budget must be approved before the start of such financial year, and the resolutions and performance objectives referred to in Section 17 must simultaneously be adopted.

## **Section 25 Failure to approve budget before start of budget year**

This Section sets out the process which must be followed if the budget is not approved in the normal course of events. Briefly the Council must reconsider and vote on the budget, or an amended version of the budget, every seven days until a budget is approved. The Mayor must immediately inform the MEC for Local Government if the budget is not adopted by the start of the budget year, and may request a provincial intervention.

## **Section 26 Consequences of failure to approve budget before start of budget year**

The provincial executive must intervene in any municipality which has not approved its annual budget by the start of the relevant financial year. Such intervention must entail the taking of any appropriate steps to ensure a budget is approved, including dissolving the Council and appointing an administrator until a new Council can be elected, and approving a temporary budget until such new Council can adopt a permanent budget for the municipality. The Section also imposes restrictions on what may be spent in terms of such temporary budget.

## **Section 27 Non-compliance with provisions of this chapter**

This Section sets out the duties of the Mayor to report any impending non-compliance and the general consequences of non-compliance with the requirements of the various foregoing prescriptions.

## **Section 28 Municipal adjustments budgets**

A municipality may revise its annual budget by means of an adjustments budget.

However, a municipality must promptly adjust its budgeted revenues and expenses if a material under-collection of revenues arises or is apparent.

A municipality may appropriate additional revenues which have become available but only to revise or accelerate spending programmes already budgeted for a municipality may in such adjustments budget, and within the prescribed framework, authorize unforeseen and unavoidable expenses on the recommendation of the Mayor.

A municipality may authorize the utilization of projected savings on any vote towards spending under another vote.

Municipalities may also authorize the spending of funds unspent at the end of the previous financial year, where such under-spending could not reasonably have been foreseen at the time the annual budget was approved by the Council.

Only the Mayor of the municipality may table an adjustments budget. Such budget may be tabled whenever necessary, but limitations on the timing and frequency of such tabling may be prescribed.

An adjustments budget must contain all of the following:

- an explanation of how the adjustments affect the approved annual budget;
- appropriate motivations for material adjustments; and
- an explanation of the impact of any increased spending on the current and future annual budgets.

Municipal taxes and tariffs may not be increased during a financial year except if required in terms of a financial recovery plan.

## **Section 29 Unforeseen and unavoidable expenditure**

In regard to unforeseen and unavoidable expenses, the following apply:

- the Mayor may authorize such expenses in an emergency or other exceptional circumstances;



- the municipality may not exceed a prescribed percentage of the approved annual budget in respect of such unforeseen and unavoidable expenses;
- these expenses must be reported by the Mayor to the next Council meeting;;
- the expenses must be appropriated in an adjustments budget; and
- the adjustments budget must be passed within sixty days after the expenses were incurred.

### **Section 30 Unspent funds**

The appropriation of funds in an annual or adjustments budget will lapse to the extent that they are unspent by the end of the relevant budget year, but except for the expenses referred to above in Section 16.

### **Section 31 Shifting of funds between multi-year appropriations**

If the funds for a capital project have been appropriated for more than one financial year (see Section 16) these expenses may exceed the appropriation for any one financial year, provided:

- the increase is not more than 20% of that financial year 's allocation;
- the increase is funded in the next financial year 's appropriations;
- the Municipal Manager certifies that actual revenues are expected to exceed budgeted revenues, and that enough funds will be available to finance such increased appropriation without incurring further borrowing beyond the annual budget limit;
- the Mayor gives prior written approval for such increased appropriation; and
- all the above documentation is provided to the Auditor-General.

### **Section 32 Unauthorized, irregular or fruitless and wasteful expenditure**

Unauthorized expenses may be authorized in an adjustments budget.

### **Section 33 Contracts having future budgetary implications**

Contracts extending beyond one financial year may be entered into by a municipality, but if such contract extends beyond the three years covered in the annual budget, the municipality may enter into such contract only if:

- The Municipal Manager, at least sixty days before the Council meeting at which the contract is to be approved, has made the contract public, with an information statement summarizing the municipality 's obligations, and inviting the local community and other interested parties to submit comments or make representations.
- The Municipal Manager solicits the views and recommendations of the National Treasury and Provincial Treasury in respect to such contract, as well as those of the National Department of Provincial and Local Government, and any national department concerned with water, sanitation or electricity, if the contract relates to any of these services.
- The Council has taken into account the projected financial obligations in regard to such contract, the impact on tariffs, and the views and comments received from all the foregoing parties.
- The Council adopts a resolution determining that the municipality will secure a significant capital investment or derive a significant financial or economic benefit from the contract, and approves the entire contract exactly as it is to be executed.

A contract for purposes of this Section shall exclude any contract relating to the incurring of long-term debt by the municipality, employment contracts, for categories of goods as may be prescribed, or contracts where the value of the contract is less than a prescribed value or a prescribed percentage of the annual budget.

## **Section 42 Price increases of bulk resources for provision of municipal services**

National and provincial organs of state which supply water, electricity or any other bulk resources to municipalities or municipal entities for the provision of municipal services may increase the price of such resources only after doing all the following:

- The proposed increase must be submitted to the organ's executive authority and (where legislation so requires) to any regulatory agency for approval.
- At least forty days prior to the above submission the National Treasury and organized local government must be invited to submit written comments on the proposed increase.
- The executive authority, after taking into account the comments received, must table the price increase in Parliament or the provincial legislature, as the case may be, with a full motivation and certain other prescribed explanatory documentation.

Unless the Minister of Finance otherwise directs, price increase must be tabled on or before 15 March to take effect from 1 July of the same year. If it is tabled after 15 March it may only take effect from 1 July of the following year.

## **Section 43 Applicability of tax and tariff capping on municipalities**

If a national or provincial organ of state is legislatively empowered to determine the upper limits of any municipal tax or tariff, such determination takes effect on the date specified in the determination, but provided that, unless the Minister of Finance otherwise directs:

- A determination promulgated on or before 15 March shall not take effect before 1 July of the same year.
- A determination promulgated after 15 March shall not take effect before 1 July of the following year.
- A determination shall not be allowed to impair a municipality's ability to meet any annual or periodic escalations in the payments it must make in respect of any contract legally entered into by a municipality.

## **Section 53 Budget processes and related matters**

The Mayor of the municipality must:

- Provide general political guidance over the annual budget process and the priorities that guide the preparation of each budget.
- Co-ordinate the annual revision of the IDP, as well as the preparation of the annual budget, and
- determine how the IDP is to be taken into account or is to be revised for purposes of such budget.
- Take all reasonable steps to ensure that the Council approves the annual budget before the start of the financial year to which it relates, and that the municipality's service delivery and budget implementation plan is approved within twenty-eight days after the approval of the budget.
- Ensure that the annual performance agreements for the Municipal Manager and the senior managers of the municipality are linked to measurable performance objectives which are approved with the budget and the service delivery and budget implementation plan.

The Mayor must promptly report to the Council and the MEC for Local Government any delay in tabling the annual budget, approving the service delivery and budget implementation plan or signing the annual performance agreements.

The Mayor must further ensure that the service delivery targets and quarterly performance indicators, and the monthly projections of revenues and expenses in the service delivery and budget implementation plan, are made public not later than fourteen days after these matters have been approved; and that the performance agreements of the Municipal Manager and other senior officials are similarly made public not later than fourteen days after their approval.

### **Section 68 Budget preparation**

The Municipal Manager must assist the Mayor in performing the assigned budgetary functions and must provide the Mayor with administrative support, operational resources and the information necessary to perform these functions.

### **Section 69 Budget implementation**

The Municipal Manager is responsible for implementing the budget, and must take reasonable steps to ensure that:

- funds are spent in accordance with the budget;
- expenses are reduced if expected revenues are less than projected; and
- revenues and expenses are properly monitored.

The Municipal Manager must prepare any adjustments budget when such budget is necessary and submit it to the Mayor for consideration and tabling in Council.

The Municipal Manager must submit a draft service delivery and budget implementation plan to the Mayor fourteen days after the annual budget has been approved, and must also within the same period submit drafts of the annual performance agreements to the Mayor.

### **Section 70 Impending shortfalls, overspending and overdrafts**

The Municipal Manager must report in writing to the Council any impending shortfalls in the annual revenue budget, as well as any impending overspending, together with the steps taken to prevent or rectify these problems.

### **Section 71 Monthly budget statements**

The Municipal Manager must, not later than ten working days after the end of each calendar month, submit to the Mayor and Provincial Treasury a report in the prescribed format on the state of the municipality's budget for such calendar month, as well as on the state of the budget cumulatively for the financial year to date.

This report must reflect the following:

- actual revenues per source, compared with budgeted revenues;
- actual expenses per vote, compared with budgeted expenses;
- actual capital expenditure per vote, compared with budgeted expenses;
- actual borrowings, compared with the borrowings envisaged to fund the capital budget;
- the amount of allocations received, compared with the budgeted amount;
- actual expenses against allocations, but excluding expenses in respect of the equitable share;

- explanations of any material variances between the actual revenues and expenses as indicated above and the projected revenues by source and expenses by vote as set out in the service delivery and budget implementation plan;
- the remedial or corrective steps to be taken to ensure that the relevant projections remain within the approved or revised budget; and
- projections of the revenues and expenses for the remainder of the financial year, together with an indication of how and where the original projections have been revised.

The report to the National Treasury must be both in electronic format and in a signed written document.

#### **Section 54 Budgetary control and early identification of financial problems**

On receipt of the report from the Municipal Manager, the Mayor must:

- consider the report;
- check whether the budget has been implemented in accordance with the service delivery and budget implementation plan;
- issue appropriate instructions to the Municipal Manager to ensure that the budget is implemented in accordance with this plan, and that the spending of funds and the collection of revenues proceed in accordance with the approved budget;
- identify any financial problems facing the municipality, as well as any emerging or impending financial problems; and
- submit to the Council within thirty days of the end of each quarter a report on the implementation of the budget and the financial state of affairs of the municipality.

If the municipality faces any serious financial problems, the Mayor must:

- promptly respond to and initiate the remedial or corrective steps proposed by the Municipal Manager, and
- alert the MEC for Local Government and the Council of the municipality to the problems concerned.

The Mayor may revise the details of the service delivery and budget implementation plan, but any revisions to the service delivery targets and quarterly performance indicators must be approved by the Council, and be supported by an adjustments budget. Any changes made to the projections of revenues and expenses as set out in the plan must promptly be made public.

#### **Section 55 Report to provincial executive if conditions for provincial intervention exist**

If the Council has not approved its annual budget by the first day of the financial year to which it relates, or if the municipality encounters serious financial problems, the Mayor must immediately report this matter to the MEC for Local Government and may recommend a provincial intervention.

#### **Section 72 Mid-year budget and performance assessment**

The Municipal Manager must assess the budgetary performance of the municipality for the first half of the financial year, taking into account all the monthly budget reports for the first six months, the service delivery performance of the municipality as against the service delivery targets and performance indicators which were set in the service delivery and budget implementation plan, and the past financial year's annual report and the progress made in resolving problems identified in such report.

The Municipal Manager must then submit a report on such assessment to the Mayor, the National Treasury and the Provincial Treasury.

The Municipal Manager may in such report make recommendations for adjusting the annual budget and for revising the projections of revenues and expenses set out in the service delivery and budget implementation plan.

In terms of Section 54(1) (f) the Mayor must promptly submit this assessment report to the Council of the municipality.

### **Section 73 Reports on failure to adopt or implement budget-related and other policies**

The Municipal Manager must inform the Provincial Treasury, in writing, of any failure by the Council to adopt or implement any budget-related policy or a supply chain management policy, and of any non-compliance by an office bearer or political structure with such policy.

### **Section 75 Information to be placed on websites of municipalities**

The Municipal Manager must place on the municipality's official website (inter alia) the following:

- the annual and adjustments budgets and all budget-related documents;
- all budget-related policies;
- the annual report;
- all performance agreements;
- all service delivery agreements;
- all long-term borrowing contracts;
- all quarterly reports submitted to the Council on the implementation of the budget and the financial state of affairs of the municipality.

### **Section 80 Establishment (of municipal budget and treasury office)**

Every municipality must have a budget and treasury office comprising a Chief Financial Officer supported by appointed officials and contracted staff.

### **Section 81 Role of chief financial officer**

The Chief Financial Officer is administratively in charge of the budget and treasury office and must, inter alia,

- assist the Municipal Manager in preparing and implementing the budget;
- perform such budgeting, financial reporting and financial management and review duties as are delegated by the Municipal Manager;
- account to the Municipal Manager for the performance of all the foregoing responsibilities.

### **Section 83 Competency levels of professional financial officials**

The Municipal Manager, senior managers, the Chief Financial Officer and the other financial officials in a municipality must all meet prescribed financial management competency levels.

## SUMMARIZED TIMETABLE

NOTE: DATES IN BRACKETS ARE PUTATIVE

| FINAL DATE  | ACTION BY MUNICIPALITY  | ACTION BY MUNICIPAL ENTITY  |
|---|---|---|
| 31 August   | Table in council timetable for preparation of coming year's annual budget   |   |
| 20 January  |   | Assess current year's budget performance and submit report to board of directors and municipality |
| 25 January  | Assess current year's budget performance  |   |
| 31 January  | Table assessment report in council  |   |
| 31 January or earlier                                       |   | Submit proposed budget for coming year to municipality  |
| (31 January)  | Consider municipal entity's proposed budget for coming year and make recommendations                                    |   |
| (31 January or earlier)                                     | Table municipal entity's adjustments budget for coming year   | Submit adjustments budget for current year to municipality and make budget public                 |
| (Between 31 January and 31 March)                           | Table municipality's adjustments budget for current year and changes to service delivery targets and KPI's              |   |
| (Between 31 January and 31 March)                           | Make Public adjustments budget and revisions to service delivery and budget implementation plan for current year        |   |
| Mid March   |   | Submit revised budget for coming year to municipality   |
| 31 March  | Table municipality's draft budget for coming year   |   |
| 31 March  | Table municipal entity's revised budget for coming year   |   |
| Immediately after 31 March                                  | Make public draft budget for coming year and invite submissions from community, provincial treasury and others          |   |
| FINAL DATE  | ACTION BY MUNICIPALITY  | ACTION BY MUNICIPAL ENTITY  |
| Before 31 May   | Respond to submissions and revise draft budget for coming year  |   |
| 31 May  | Consider approval of budget for coming year and attendant resolutions   | Approve revised budget for coming year and make budget public                                     |
| 30 June   | Budget for coming year and attendant resolutions must be approved by 30 June. Approved budget of entity must be tabled. |   |
| Early June to early July: Immediately after budget approved | Submit budget to national treasury and provincial treasury  |   |
| Early June to early July: Immediately after approval date   | Place on website annual budgets and all budget-related documents  |   |
| Mid June to mid July: 14 days after budget approved         | Finalize draft service delivery and budget implementation plan and draft performance agreements                         |   |
| Late June to late July: 28 days after budget                | Approve service delivery and budget implementation plan   |   |

|  |   |  |
|--|---|--|
| approved   |   |  |
| Late June to late July: 28 days after budget approved  | Conclude performance agreements   |  |
| Mid July to mid August: 14 days after service delivery and budget implementation plan approved | Make public projections of revenues and expenses for each month of coming year, service delivery targets for each quarter, and performance agreements |  |
|  |   |  |

## DETAILED BUDGET TIME

| Section of Municipal Finance Management Act No. 56 of 2003 | Date by which action must be completed                       | Action required  | Responsible party            | Practical considerations   |
|--|--|--|------------------------------|--|
| 21 (1) (b)   | 31 August  | Mayor must at least 10 months before start of budget year table in council time schedule outlining key deadlines for: <ul style="list-style-type: none"> <li>- preparation, tabling and approval of annual budget</li> <li>- annual review of IDP</li> <li>- annual review of budget related policies</li> <li>- tabling and adoption of any amendments to IDP and budget- related policies</li> <li>- any consultative processes forming part of foregoing</li> </ul> | Mayor                        | Time schedule must either fit in with already scheduled council meetings or must indicate when special council meetings must be scheduled.                       |
| Section 88   | 20 January   | Accounting officer of municipal entity must assess entity's budgetary and financial performance for first six months of financial year, and submit assessment report to board of directors and parent municipality.  |                              |  |
| 72 (1), (2) and (3)  | 25 January   | Accounting officer of municipality must assess budgetary and financial performance of municipality for first six months of financial year, make recommendations on whether adjustments budget necessary, and recommend revised projections for revenues and expenses. This assessment must be submitted to the mayor, national treasury and provincial treasury (presumably immediately).  | Accounting Officer           |  |
| 54 (1) (f)   | 31 January   | Mayor must submit accounting officer's report to council.  | Mayor                        | Special Council meeting may have to be scheduled   |
| 87   | 31 January or earlier if so requested by parent municipality | Board of directors of municipal entity must submit to parent municipality proposed budget for entity for ensuing financial year.   | Board of directors of entity | It is not clear to what person or structure in the parent municipality this budget must be submitted.<br><br>However, it makes good sense for the council of the |



|                   |  |  |                              |  |
|-------------------|--|--|------------------------------|--|
|                   |  |  |                              | municipality to consider this budget at the same meeting that it considers the municipality's own proposed adjustments budget. |
| 87                | 100 days before start of financial year (approximately mid March)                  | Board of directors of entity must consider recommendations, and if necessary submit revised budget to parent municipality  | Board of directors of entity |  |
| 16 (2)            | 31 March   | Mayor must table (draft) annual budget of municipality at council meeting at least 90 days before start of budget year   | Mayor                        | Council meeting must be scheduled appropriately  |
| 87                | 31 March   | Mayor of parent municipality must table originally proposed or proposed revised budget (as case may be) of entity when (draft) annual budget of municipality first tabled.   | Mayor                        |  |
| 22 (a) and 22 (b) | Immediately after 31 March or earlier date if annual budget tabled before 31 March | Immediately after (draft) annual budget tabled in council, accounting office must (1) make public budget and documents referred to in Section 17 (3), and invite local community to submit representations in connection with budget, and (2) submit annual budget in both printed and electronic formats to provincial treasury, and in either format to prescribed national and provincial organs of state and to other municipalities affected by the budget. | Accounting Officer           |  |
| 23 (2)            | Before 31 May  | Council must give mayor opportunity: (1) to respond to submissions received on (draft) annual budget and attendant documentation and (2) to revise budget, if necessary, and table amendments for consideration by council.  | Mayor and council            |  |
| 24 (1) and (2)    | 31 May   | Council must consider approval of annual budget, together with resolutions imposing rates and levies, setting tariffs, approving   |                              |  |

|                    |  |   |  |  |
|--------------------|--|---|--|--|
|                    |  | measurable performance objectives for revenue from each source and for each vote, approving any changes to budget-related policies.   |  |  |
|                    | Council  | Although council has until 30 June to approve budget, best practice will be to approve budget not later than 31 May.  |  |  |
| 87 (4)             | 31 May   | Board of directors of municipal entity must approve budget for coming year, having taken into account recommendations of council of parent municipality, and must make budget public.   | Board of directors of municipal entity |  |
| 24 (3)             | (Immediate after approval date)  | Accounting officer must submit approved annual budget to national treasury and provincial treasury.   | Accounting officer                     | <p>No time limit is specified for this action, and neither is the format in which the budget is to be submitted is specified.</p> <p>Common sense dictates that the submission should be at least in electronic format and that it should be made as soon as possible after the approval date.</p> |
| 25 (1) and (2)     | Within 7 days of date of council meeting which failed to approve annual budget | If council fails to approve annual budget at meeting scheduled in terms of Section 24, must reconsider budget within 7 days of date of such meeting. If necessary, process must be repeated until budget approved by 30 June. | Council                                | As province will intervene if budget not approved by 30 June, mayor, councillors and accounting officer must co-operate to ensure obstacles to approval timeously removed.   |
| 69 (3) (a) and (b) | 14 days after approval of annual budget  | Accounting officer must submit to mayor draft services delivery and budget implementation plan, and drafts of annual  | Accounting officer                     |  |

|                         |   |  |         |  |
|-------------------------|---|--|---------|--|
|                         | (mid June and mid July)   | performance agreements for municipal manager and all senior managers   |         |  |
| 53 (1) (c) (ii)         | Within 28 days after date annual budget approved (late June to late July)   | Service delivery and budget implementation plan must be approved by mayor, including projections of revenues and expenses for each month, and service delivery targets and performance indicators for each quarter. (Note that though the mayor approves these targets and KPI's only the council may change them and then only following the approval of an adjustments budget - See Section 54 (1) (c)). | Mayor   |  |
| 53(1)(c)(iii)(aa)& (bb) | Within 28 days after date annual budget approved (late June to late July)   | Mayor must take all reasonable steps to ensure that annual performance agreements for municipal managers and all senior managers are linked to measurable performance objectives approved with the budget and to the service delivery and budget implementation plan, and are concluded in accordance with Section 57 (2) of the Municipal Systems Act.  | Mayor   | No date is specified for the completion of this requirement, but the logical inference is that the date should not be much later than the date on which the service delivery and budget implementation plan must be approved. See Section 53 (3)(b). |
| 16 (1)                  | 30 June   | Annual budget must be approved by council.   | Council |  |
| 53 (3) (a) and (b)      | 14 days after approval of service delivery and budget implementation plan (mid July to mid August, depending on date plan approved) | Projections of revenues and expenses for each month and service delivery targets for each quarter (as set out in approved service delivery and budget implementation plan), and performance agreements of municipal manager and senior manager must be made public, and copies of performance agreements must be submitted to council and MEC for local government.  | Mayor   | Although this is not specified as requirement, logic dictates that copies of the service delivery and budget implementation plan should also be submitted to council and the MEC.  |
|                         |   |  |         |  |
| 87                      | (31 January to mid-March)   | Parent municipality must consider proposed budget and make any necessary   |         | It is not clear what person or   |

|                |                                   |   |   |  |
|----------------|-----------------------------------|---|---|--|
|                |                                   | recommendations.  |   | structure in the parent municipality must perform this action, but the council seems the logical party. It would also make sense for the council to consider this budget by 31 January.  |
| 87             | (Tabled in council by 31 January) | Board of directors of entity may, with approval of mayor of parent municipality, revise budget of entity for certain prescribed reasons. Adjustments budget once approved by board of directors of entity must be tabled by mayor at next meeting of council of parent municipality. Adjustment budget must be made public. | Board of directors and mayor of parent municipality | Evidently such an adjustments budget may be prepared at any stage. It would make good sense, however, for the parent municipality to insist that the entity's revised budget be prepared and submitted to the mayor at the same time that or before the entity's proposed budget for the new financial year is considered. Again the potential problem of different parent municipalities having different views will have to be resolved by (presumably) the mayors considered. |
| 54 (1) and (2) | (Between 31 January and 31 March) | If municipality faces "serious financial problems" mayor must "promptly" respond to and initiate remedial steps proposed by   | Mayor   | Adjustments budgets may be prepared by the   |

|        |                                   |  |       |   |
|--------|-----------------------------------|--|-------|---|
|        |                                   | <p>accounting officer, including steps to reduce expenses and tabling of adjustments budget. Mayor must also consider revisions to service delivery and budget implementation plan. (note that only council may approve changes to service delivery targets and KPI's – these changes must therefore be tabled with the adjustments budget).</p> |       | <p>accounting officer, and tabled in council by the Mayor "when necessary". They must be so prepared and tabled (within prescribed limits as to timing and frequency) whenever material adjustments to expenses or revenues are required, and not only when "serious financial problems" are looming. In general, adjustments budgets should preferably be tabled by or as soon as possible after 31 January, and certainly not later than 31 March when the draft annual budget for the next year is first tabled.</p> |
| 54 (3) | (Between 31 January and 31 March) | <p>Mayor must ensure that revisions to service delivery and budget implementation plan are "promptly" made public. (note that no concomitant revision of performance agreements is evidently envisaged).</p>   | Mayor | <p>Presumably the accounting officer must make these revisions for the mayor's approval as part of the process of adjusting the annual budget. the deadline for these revisions must be by or as soon as possible after 31 January, but certainly not later than 31 March. See also 54 (1) and (2).</p>   |





**Sarah Baartman**

DISTRICT MUNICIPALITY  
*Province of the Eastern Cape*

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*progress through development*

# **BANKING AND INVESTMENT POLICY**

May 2017

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## 1. LEGAL COMPLIANCE

The municipality shall at all times manage its banking arrangements and investments and conduct its cash management policy in compliance with the provisions of and any further prescriptions made by the Minister of Finance in terms of the Municipal Finance Management Act No. 56 of 2003.

A paraphrase of the provisions of this Act is attached as **ANNEXURE A** to this policy. The draft National Treasury Cash Management and Investment Regulations are attached as **ANNEXURE B**.

## 2. OBJECTIVE OF INVESTMENT POLICY

The council of the municipality is the trustee of the public revenues which it collects on behalf of the community, and it therefore has an obligation to the community to ensure that the municipality's cash resources are managed effectively and efficiently.

The council therefore has a responsibility to invest these public revenues in a knowledgeable and judicious way, and can account fully to the community in regard to such investments.

The investment policy provides a framework to ensure the preservation, safety of investments and diversification of investments and adequate cash flows are available to meet short and long term commitments.

The investment policy of the municipality is therefore aimed at gaining the highest possible return on investments, without incurring undue risks, during those periods when cash revenues are not needed for capital or operational purposes. The effectiveness of the investment policy is dependent on the accuracy of the municipality's cash management programme, which must identify the amounts surplus to the municipality's needs, as well as the time when and period for which such revenues are surplus.

## 3. EFFECTIVE CASH MANAGEMENT

### 3.1 Cash Collection

All monies due to the municipality must be collected as soon as possible, either on or immediately after due date, and banked on a daily basis.

The respective responsibilities of the chief financial officer and other heads of departments in this regard are defined in a code of financial practice approved by Council.

The unremittant support of and commitment to the municipality's credit control policy, both by the council and the municipality's officials, is an integral part of proper cash collections, and by approving the present policy the council pledges itself to such support and commitment.

### 3.2 Payments of Creditors

The chief financial officer shall endeavor to ensure that all tenders and quotations invited by and contracts entered into by the municipality stipulate payment terms favourable to the municipality (not more than 30 days), that is, payment to fall due not sooner than the conclusion of the month following the month in which a particular service is rendered to or goods are received by the municipality. This rule shall be departed from only where there are financial incentives for the municipality to effect earlier payment, and any such departure shall be approved by the chief financial officer before any payment is made.

In case of small, micro and medium enterprises, where such a policy may cause financial hardship to the contractor, payment may be effected at the conclusion of the month during which the service is rendered or within 14 days of the date of such service being rendered, whichever is the later. Any such early payment shall be approved by the chief financial officer before any payment is made.

Wherever possible, payments shall be effected by means of electronic transfers rather than by cheques.

Special payments to creditors shall only be made with the express approval of the chief financial officer, who shall be satisfied that there are compelling reasons for making such payments prior to the normal month end processing.

### 3.3 Cash Management Programme

The Chief Financial Officer shall monitor cash flows on a daily basis to ensure that council is able to meet its financial commitments and that the operating bank account does not carry unduly high balances. Any surplus funds shall be transferred on a daily basis to a call account attracting the highest possible interest provided that those funds can be retrieved at short notice.

The chief financial officer shall prepare an annual estimate of the municipality's cash flows divided into calendar months, and shall update this estimate on a quarterly basis. The estimate shall indicate when and for what periods and amounts surplus revenues may be invested, when and for what amounts investments will have to be liquidated, and when – if applicable – either long-term or short-term debt must be incurred. Heads of departments shall in this regard furnish the chief financial officer with all such information as is required, timeously and in the format indicated.

The chief financial officer shall report to the Mayoral Committee or the Portfolio Councillor, as the case may be, on a quarterly basis the cash flow estimate or revised estimate for such quarter or reporting period respectively, together with the actual cash flows for the quarter or period concerned, and cumulatively to date, as well as the estimates or revised estimates of the cash flows for the remaining months of the financial year, aggregated into quarters where appropriate. The cash flow estimates shall be divided into calendar months, and in

reporting the chief financial officer shall provide comments or explanations in regard to any significant cash flow deviation in any calendar month forming part of such report. Such report shall also indicate any movements in respect of the municipality's investments, together with appropriate details of the investments concerned.

#### 3.4 Unresolved Reconciling Items

Unidentified bank deposits must be adequately followed up. After a period of 6 (six) months where no claims are made or the origin of the payment is still unknown / unidentified, the amount will be journalised as current year revenue.

Cheques older than 6 months (stale) must be re-issued subsequent to follow up. Should the new cheque to the same supplier become stale, the amount will be reversed against the expenditure account.

#### 4. INVESTMENT ETHICS

The chief financial officer shall be responsible for investing the surplus revenues of the municipality, and shall manage such investments in consultation with the investment committee, and in compliance with any policy directives formulated by the council and prescriptions made by the Minister of Finance.

In making such investments the chief financial officer shall at all times have only the best considerations of the municipality in mind, and shall not accede to any influence by or interference from councillors, investment agents or institutions or any other outside parties.

Neither the chief financial officer nor the executive mayor or portfolio councillor, may accept commission or other reward in respect of any investment.

#### 5. INVESTMENT PRINCIPLES

##### 5.1 Limiting Exposure

Subject to section 6 of Municipal Cash Management and Investment Regulations where large sums of money are available for investment the chief financial officer shall ensure that they are invested with more than one institution, wherever practicable, in order to limit the risk exposure of the municipality. The chief financial officer shall further ensure that, as far as it is practically and legally possible, the municipality's investments are so distributed that more than one investment category is covered.

To limit exposure to a single institution:

- i. The amount invested with any financial institution should be based on the following formula:

Percentage Exposure

Total shareholder Equity of individual Approved Bank

|                     |   |  |
|---------------------|---|--|
| For Individual Bank | = | Total Shareholder Equity of All Approved Banks |
|                     | = | % subject to sub-paragraph (ii) and (iii)      |

- ii. Not more than 30% of available funds should be placed with any financial institution subject to sub-paragraph (iii);
- iii. Investments should be placed only with financial institutions that have shareholder equity in excess of R10 billion.

See ANNEXURE C (page 18) which is an example of the methodology used by the municipality.

## 5.2 Risk and Return

Subject to section 4 (c) (ii) of the Municipal Cash Management and Investment Regulations, the chief financial officer in making investments on behalf of the municipality shall always be to obtain the best interest rate on offer, this consideration must be tempered by the degree of risk involved.

At the end of every financial year, a certificate must be obtained from every institution with which funds were invested, certifying that no monetary consideration (of whatever nature) was paid in respect of investments and that no advantage accrued or will accrue to any councillor or employee, his representative or nominee as a result of investments being made.

### 5.3 Call Deposits and Fixed Deposits

Before making fixed deposits, the chief financial officer shall obtain quotations from all qualifying institutions.

Given the volatility of the money market, the chief financial officer, shall, whenever necessary, request quotations telephonically, and shall record on an appropriate investment schedule the name of the institution, the name of the person contacted, and the relevant terms and rates offered by such institution, as well as any other information which may be relevant. The investment quotation schedule to be used is attached as **ANNEXURE C** (page 17).

Once the verbal investment quotations have been recorded, written confirmation of the telephonic quotation must be immediately obtained (by facsimile, email or any other expedient means).

The responsible officer then prepares an agenda for the investment committee which should at least contain the following information / documents:

- Cash Flow Budget;
- Quotations for Investment of Funds;
- Investment Criteria Schedule; and
- Current Investment Portfolio.

Copies of these documents are attached for reference purposes.

#### 5.4 Investment Committee

The Investment Committee consists of the following officials who will be responsible for final decision making relating to the investment of funds:

|  |                    |
|--|--------------------|
| Municipal Manager  | Chairperson        |
| Director: Finance & Corporate Services                             | Deputy Chairperson |
| Manager: Finance   |                    |
| Senior Accountant: Income & Expenditure                            |                    |
| Senior Accountant: Financial Accounting, Asset and Risk Management |                    |
| Other Departmental Heads   |                    |

Four of the aforementioned officials form a quorum and at least the chairperson or the deputy chairperson must be present at the meeting. The committee has the delegated authority to make final decisions relating to the investment of funds within the framework of applicable legislation, regulations and council's investment policy.

#### 5.5 Restriction on Tenure of Investments

No investment with a tenure exceeding twelve months shall be made without the prior approval of the Municipal Manager.

### 6. CONTROL OVER INVESTMENT

The chief financial officer shall ensure that proper records and an investment register is kept of all investments made by the municipality. Such records shall indicate the date on which the investment is made, the institution with which the monies are invested, the amount of the investment, the interest rate applicable, interest accrued and the maturity date. If the investment is liquidated at a date other than the maturity date, such date shall be indicated.

The chief financial officer shall ensure that all interest properly due to the municipality is timeously received, and shall take appropriate steps or cause such appropriate steps to be taken if interest is not fully or timeously received.

### 7. OTHER EXTERNAL INVESTMENTS

From time to time it may be in the best interests of the municipality to make longer-term investments. Subject to section 6 of the Municipal Cash Management & Investment Regulations the chief financial officer must be guided by the best rates of the interest pertaining to the specific type of investment which the municipality requires, and to the best instrument available at the time.

8. BANKING ARRANGEMENTS

The municipal manager is responsible for the management of the municipality's bank accounts, but may delegate this function to the chief financial officer. The municipal manager and chief financial officer are authorized at all times to sign cheques and any other documentation associated with the management of such accounts. The municipal manager, in consultation with the chief financial officer, is authorized to appoint two or more additional signatories in respect of such accounts, and to amend such appointments from time to time. The list of current signatories shall be reported to the executive mayor, on an annual basis.

9. INVESTMENTS FOR THE REDEMPTION OF LONG-TERM LIABILITIES

In managing the municipality's investments, the chief financial officer shall ensure that, whenever a long-term (non-annuity) loan is raised by the municipality, an amount is invested at least annually equal to the principal sum divided by the period of the loan. Such investment shall be accumulated and used only for redemption of such loan on due date. The making of such investment shall be approved by the council at the time that the loan itself is approved.

If the loan raised is not a fixed term loan, but an annuity loan, the chief financial officer shall ensure that sufficient resources are available to repay the principal amounts due in respect of such loan on the respective due dates.

10. INTEREST ON INVESTMENTS

The interest accrued on all municipality's investments shall, in compliance with the requirements of generally recognized accounting practice, be recorded in the first instance in the municipality's operating account as ordinary operating revenues, and may thereafter be appropriated to the fund or account in respect of which such investment was made depending on the conditions which apply to the fund or account.

## **ANNEXURE A: PARAPHRASE OF REQUIREMENTS OF MUNICIPAL FINANCE MANAGEMENT ACT NO. 56 OF 2003**

### **SECTION 7: OPENING OF BANK ACCOUNTS**

Every municipality must open and maintain at least one account. This bank account must be in the name of the municipality, and all monies received by the municipality must be paid into this bank account or accounts, promptly and in accordance with any requirements that may be prescribed.

A municipality may not open a bank account:

- otherwise than in the name of the municipality;
- abroad; or
- with an institution not registered as a bank in terms of the Banks Act 1990.

Money may be withdrawn from the municipality's bank account only in accordance with the requirements of Section 11 of the present Act.

### **SECTION 8: PRIMARY BANK ACCOUNT**

Every municipality must have a primary bank account, and if the municipality has only one bank account that account is its primary bank account. If the municipality has more than one bank account, it must designate one of those bank accounts as its primary bank account.

The following must be paid into the municipality's primary account:

- all allocations to the municipality;
- all income received by the municipality on its investments;
- all income received by the municipality in connection with its interest in any municipality entity;
- all money collected by the municipal entity or other external mechanism on behalf of the municipality; and
- any other monies as may be prescribed.

The accounting officer of the municipality must submit to the national treasury, the provincial treasury and the Auditor-General, in writing, the name of the bank where the primary bank account of the municipality is held, and the type and

number of the account. If the municipality wants to change its primary bank account, it may do so only after the accounting officer has informed the national treasury and the Auditor-General, in writing, at least 30 days before making such change.

#### SECTION 9: BANK ACCOUNT DETAILS TO BE SUBMITTED TO PROVINCIAL TREASURIES AND AUDITOR-GENERAL

The accounting officer of the municipality must submit to the provincial treasury and the Auditor-General, in writing, within 90 days after the municipality has opened a new bank account, the name of the bank where the account has been opened, and the type and number of the account, and annually, before the start of each financial year, the name of each bank where the municipality holds a bank account, and the type and number of each account.

#### SECTION 10: CONTROL OF MUNICIPAL BANK ACCOUNTS

The accounting officer of the municipality must administer the entire municipality's bank accounts, is accountable to the municipal council for the municipality's bank accounts, and must enforce compliance with Section 7, 8 and 11 of the present Act.

The accounting officer may delegate the duties referred to above only to the municipality's chief financial officer.

#### SECTION 11: WITHDRAWALS FROM MUNICIPAL BANK ACCOUNTS

Only the accounting officer or the chief financial officer of the municipality (presumably where this power has been appropriately delegated), or any other senior financial official of the municipality acting on the written authority of the accounting officer, may withdraw money or authorize the withdrawal of money from any of the municipality's bank accounts. Such withdrawals may be made only to:

- defray expenditure appropriated in terms of an approved budget;
- defray expenditure authorized in terms of Section 26 (4) (this section deals with situations in which the budget was not timeously approved, and the province has been compelled to intervene);
- defray unforeseeable and unavoidable expenditure authorized in terms of Section 29 (1);
- in the case of a bank account opened in terms of Section 12, make payments from the account in accordance with Section 12 (4);
- pay over to a person or organ of state money received by the municipality on behalf of such person or organ of state, including money collected by the municipality on behalf of such a person or organ of state by agreement, or any insurance or other payments received by the municipality for such person or organ of state;
- refund money incorrectly paid into a bank account;



- refund guarantees, sureties and security deposits;
- make investments for cash management purposes in accordance with Section 13;
- defray increased expenditure in terms of Section 31; or
- for such other purposes as may be prescribed.

(Note that Section 11 (1) does not expressly provide for the withdrawal of monies to pay creditors, where the relevant obligations arose in terms of the previous budget, to repay loans, or to repay customer deposits).

Any authorization to a senior financial official to withdraw money or to authorize the withdrawal of money from a bank account must be in accordance with the framework as may be prescribed. The accounting officer may not authorize any official other than the chief financial officer to withdraw money or to authorize the withdrawal of money from the municipality's primary bank account if the municipality has a primary bank account which is separate from its other bank accounts.

The accounting officer must, within 30 days after the end of each quarter, table in the council a consolidated report of all withdrawals made other than withdrawals to defray expenditure appropriated in terms of the approved budget, and submit a copy of the report to the relevant provincial treasury and the Auditor-General.

#### SECTION 12: RELIEF, CHARITABLE, TRUST OR OTHER FUNDS

No political structure or office bearer of the municipality may set up a relief, charitable, trust or other fund of whatever description, except in the name of the municipality. Only the municipal manager may be the accounting officer of any such fund.

A municipality may open a separate bank account in the name of the municipality for the purpose of such relief, charitable, trust or other fund. Money received by the municipality for the purpose of such fund must be paid into the bank account of the municipality, or if a separate bank account has been opened for such fund, into that account.

Money in a separate account opened for such fund may be withdrawn from the account without appropriation in terms of the approved budget, but only by or on the written authority of the accounting officer, acting in accordance with decisions of the council, and for the purposes for which, and subject to any conditions on which, the fund was established or the money in the fund was donated.

#### SECTION 13: CASH MANAGEMENT AND INVESTMENTS

The Minister, acting with the concurrence of the cabinet member responsible for local government, may prescribe a framework within which municipalities must

conduct their cash management and investments, and invest money not immediately required.

A municipality must establish an appropriate and effective cash management and investment policy in accordance with any framework that may be so prescribed.

A bank where the municipality at the end of the financial year holds a bank account, or held a bank account at any time during such financial year, must, within 30 days after the end of such financial year, notify the Auditor-General, in writing, of such bank account, indicating the type and number of the account, and the opening and closing balances of that account in that financial year. The bank must also promptly disclose any information regarding the account when so requested by the national treasury or the Auditor-General.

A bank, insurance company or other financial institution which the end of the financial year holds, or at any time during the financial year held, an investment for the municipality, must, within 30 days after the end of that financial year, notify the Auditor-General, in writing, of that investment, including the opening and closing balances of that investment in that financial year. Such institution must also promptly disclose any information regarding the investment when so requested by the national treasury or the Auditor-General.

#### SECTION 17: CONTENTS OF ANNUAL BUDGETS AND SUPPORTING DOCUMENTS

The following documents must accompany each tabled draft annual budget (inter alia):

- a projection of cash flows for the budget year by revenue source, divided into calendar months;
- particulars of the municipality's investments.

#### SECTION 22: PUBLICATION OF ANNUAL BUDGETS

The accounting officer must make public, immediately after a draft annual budget is tabled, the budget itself and all prescribed supporting documents, and invite comments from the local community in connection with such budget (and documents).

#### SECTION 36: NATIONAL AND PROVINCIAL ALLOCATIONS TO MUNICIPALITIES

In order to provide predictability and certainty about the sources and levels of intergovernmental funding of municipalities, the accounting officer of a national or provincial department and the accounting authority of a national or provincial public entity responsible for the transfer of any proposed allocations to a municipality, must by no later than 20 January of each year notify the national treasury or the relevant provincial treasury as may be appropriate, of all proposed

allocations and the projected amounts of those allocations to be transferred to each municipality during each of the next 3 financial years.

The Minister or the MEC responsible for finance in the province must, when tabling the national annual budget in the national assembly or provincial annual budget in the provincial legislature, make public particulars of any allocations due to each municipality in terms of that budget, including the amount to be transferred to the municipality during each of the next 3 financial years.

#### SECTION 37: PROMOTION OF CO-OPERATIVE GOVERNMENT BY MUNICIPALITIES

In order to enable municipalities to include allocations from other municipalities in their budgets and to plan effectively for the spending of such allocations, the accounting officer of every municipality responsible for the transfer of any allocation to another municipality, must, no later than 120 days before the start of its budget year, notify the receiving municipality of the projected amount of any allocation proposed to be transferred to that municipality during each of the next 3 financial years.

#### SECTION 45: SHORT-TERM DEBT

The municipality may incur short-term debt only in accordance with and subject to the provisions of the present Act, and only when necessary to bridge shortfalls within a financial year during which the debt is incurred, in expectation of specific and realistic income to be received within that financial year, or to bridge capital needs within a financial year, to be repaid from specific funds to be received from enforceable allocations or long-term debt commitments.

The council may approve a short-term debt transaction individually, or may approve an agreement with a lender for a short-term credit facility to be accessed as and when required, including a line of credit or bank overdraft facility, provided that the credit limit must be specified in the resolution of the council; the terms of the agreement, including the credit limit, may be changed only by a resolution of the council, and if the council approves a credit facility limited to emergency use, the accounting officer must notify the council in writing as soon as practicable of the amount, duration and cost of any debt incurred in terms of such a credit facility, as well as the options available for repaying such debt.

The municipality must pay off short-term debt within the financial year in which it was incurred, and may not renew or refinance short-term debt, whether its own debt or that of any municipality entity, where such renewal or refinancing will have the effect of extending the short term debt into a new financial year.

#### SECTION 46: LONG-TERM DEBT

A municipality may incur long-term debt only in accordance with and subject to any applicable provisions of the present Act, and only for the purpose of capital expenditure on property, plant or equipment to be used for the purpose of

achieving the objects of local government as set out in Section 152 of the Constitution, or refinancing existing long-term debt subject to the requirements of Section 46 (5).

#### SECTION 47: CONDITIONS APPLYING TO BOTH SHORT-TERM AND LONG-TERM DEBT

The Municipality may incur debt only if the debt is denominated in rand and is not indexed to, or affected by, fluctuations in the value of the rand against any foreign currency.

#### SECTION 64: REVENUE MANAGEMENT (EXCERPTS)

The accounting officer of the municipality is responsible for the management of the revenue of the municipality.

The accounting officer, must, among other things, take all reasonable steps to ensure that all money received is promptly deposited in accordance with the requirements of the present Act into the municipality's primary and other bank accounts.

The accounting officer must also ensure that all revenue received by the municipality, including revenue received by any collecting agent on its behalf, is reconciled on at least a weekly basis.

The accounting officer must take all reasonable steps to ensure that any funds collected by the municipality on behalf of another organ of state are transferred to that organ of state at least on a weekly basis, and that such funds are not used for purposes of the municipality.

#### SECTION 65: EXPENDITURE MANAGEMENT (EXCERPTS)

The accounting officer of the municipality is responsible for the management of the expenditure of the municipality.

The accounting officer must take all reasonable steps to ensure, among other things, that payments made by the municipality are made direct to the person to whom they are due, unless agreed otherwise for reasons as may be prescribed, and either electronically or non-transferable cheques, provided that cash payments and payments by way of cash cheques may be made for exceptional reasons only, and only up to a prescribed limit.

The accounting officer must also ensure that all money owing by the municipality is paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure.

The accounting officer must further ensure that the municipality's available working capital is managed effectively and economically in terms of the prescribed cash management and investment frame work.

DATE :

**ANNEXURE C**

**SARAH BAARTMAN DISTRICT MUNICIPALITY**  
 Quotation for Investment of Funds: Consolidated Capital Development Fund

| QUOTE OBTAINED FROM :<br>FINANCIAL INSTITUTION |  | TELEPHONE NUMBERS | CONTACT PERSON | % INTEREST RATE FOR PERIOD INVESTED                   |                |                |                  |                  |                  |                  |                  |                  |                  |                   |                   |                    |                 |  |  | TOTAL AMOUNT INVESTED |
|--|--|-------------------|----------------|---|----------------|----------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|-------------------|-------------------|--------------------|-----------------|--|--|-----------------------|
|  |  |                   |                | AMOUNT OF UNITS R1 000 000 : INTEREST PAYABLE MONTHLY |                |                |                  |                  |                  |                  |                  |                  |                  |                   |                   |                    |                 |  |  |                       |
|  |  |                   |                | CALL  | 1 mth<br>Nov   | 2 mths<br>Dec  | 3 mths<br>Jan-05 | 4 mths<br>Feb-05 | 5 mths<br>Mar-05 | 6 mths<br>Apr-05 | 7 mths<br>May-05 | 8 mths<br>Jun-05 | 9 mths<br>Jul-05 | 10 mths<br>Aug-05 | 11 mths<br>Sep-05 | 364 Days<br>Oct-05 | PRIME<br>LINKED |  |  |                       |
| ABSA BANK                                      |  |                   |                | %<br>5.40%  | 7.05%          | 7.15%          | 7.20%            | 7.20%            | 7.20%            | 7.25%            | 7.30%            | 7.30%            | 7.30%            | 7.35%             | 7.40%             |                    | R<br>1.00       |  |  |                       |
| STANDARD BANK                                  |  |                   |                | %<br>5.75%<br>6.00%                                   | 6.70%<br>6.90% | 6.80%<br>7.00% | 7.10%<br>7.30%   | 7.10%<br>7.30%   | 7.15%<br>7.40%   | 7.10%<br>7.35%   | 7.10%<br>7.35%   | 7.10%<br>7.35%   | 7.10%<br>7.35%   | 7.10%<br>7.30%    | 7.50%<br>7.50%    |                    | R<br>12.00      |  |  |                       |
| FIRST NATIONAL BANK                            |  |                   |                | %<br>6.00%  | 6.50%          | 6.75%          | 7.30%            | 7.30%            | 7.35%            | 7.35%            | 7.35%            | 7.35%            | 7.45%            | 7.55%             |                   | R<br>2.00          |                 |  |  |                       |
| NEDCOR   |  |                   |                | %<br>5.25%  | 7.30%          | 7.20%          | 7.40%            | 7.40%            | 7.40%            | 7.40%            | 7.40%            | 7.45%            | 7.45%            | 7.50%             |                   | R<br>1.00          |                 |  |  |                       |
| INVESTEC                                       |  |                   |                | %<br>7.00%  | 7.05%          | 7.10%          | 7.25%            | 7.40%            | 7.45%            | 7.45%            | 7.45%            | 7.45%            | 7.45%            | 7.50%             |                   | R<br>14.00         |                 |  |  |                       |
| Amount Invested:                               |  |                   |                | R   |                |                |                  |                  |                  |                  |                  |                  |                  |                   |                   | R<br>30.00         |                 |  |  |                       |

NOTES:

APPROVED BY:

Officials:

(1) \_\_\_\_\_

(2) \_\_\_\_\_

(3) \_\_\_\_\_

(4) \_\_\_\_\_

(5) \_\_\_\_\_

(6) \_\_\_\_\_

(7) \_\_\_\_\_

Conditions:

(1) \_\_\_\_\_

(2) \_\_\_\_\_

(3) \_\_\_\_\_

(4) \_\_\_\_\_

(5) \_\_\_\_\_

(6) \_\_\_\_\_

(7) \_\_\_\_\_

# ANNEXURE C

## Investment criteria

| Banks      | Support Rating | IBCA Rating Short term | Long term | Fin Year End | Total Equity   | Proposed Limits | % Proposed | Current Portfolio | % Current | Max Invest |
|------------|----------------|------------------------|-----------|--------------|----------------|-----------------|------------|-------------------|-----------|------------|
| ABSA       | 2T             | F1+                    | AA        | Mar03        | 12,610,000,000 | 40,920,545      | 20.88%     | 40,000,000        | 24.10%    | 920,545    |
| STANDARD   | 2T             | F1+                    | AA        | Dec02        | 11,744,000,000 | 38,110,300      | 19.44%     | 26,000,000        | 15.66%    | 12,110,300 |
| NEDCOR     | 2              | F1+                    | AA        | Dec02        | 13,056,000,000 | 42,367,854      | 21.62%     | 41,000,000        | 24.70%    | 1,367,854  |
| FIRST RAND | 2T             | F1+                    | AA        | Jun02        | 15,100,000,000 | 49,000,811      | 25.00%     | 47,000,000        | 28.31%    | 2,000,811  |
| INVESTEC   | 4T             | F1                     | A+        | Mar03        | 7,889,000,000  | 25,600,490      | 13.06%     | 12,000,000        | 7.23%     | 13,600,490 |
| Totals     |                |                        |           |              | 60,399,000,000 | 196,000,000     | 100.00%    | 166,000,000       | 100.00%   | 30,000,000 |

### National Rating Definitions

#### Support Rating

2 - A bank for which, in our opinion, state support would be forthcoming, even in the absence of a legal guarantee. This could be, for example, because of the bank's importance to the economy or its historic relationship with the authorities.

4 - A bank for which support is likely but not certain.

T - A 2,3,4 or 5 Support ratings may be qualified by the suffix "T". This indicates significant or potential transfer risk of economic and/or political origin which might prevent support for foreign currency creditors.

#### Short Term Rating

F1 - Indicates the strongest capacity for timely payment.

- Where issues possess a particularly strong credit feature, a "+" is added to the assigned rating.

#### Long Term Rating

AA - Denotes a very strong credit risk relative to other issuers.

A - Denotes a very strong credit risk relative to other issuers. However changes in circumstances or economic conditions may affect the capacity for timely repayment.

- Where issues possess a particularly strong credit feature, a "+" is added to the assigned rating.

ANNEXURE C

| FINANCIAL INSTITUTION  | TOTAL PER INSTITUTION | AMOUNT        | PERIOD MONTHS | INT RATE | DATE INVESTED | DATE MATURING | DAYS LEFT | OCT 2004 | NOV 2004   | DEC 2004  | JAN 2005   | FEB 2005   | MAR 2005   | APRIL 2005 | MAY 2005   | JULY 2005 | TOTAL       |
|------------------------|-----------------------|---------------|---------------|----------|---------------|---------------|-----------|----------|------------|-----------|------------|------------|------------|------------|------------|-----------|-------------|
| ABSA GROUP             | R 40 000 000          | R 2 000 000   | 12            | 7.40%    | 13-Nov-03     | 11-Nov-04     | 28        |          | 2 000 000  |           |            |            | 16 000 000 |            |            |           | 2 000 000   |
| ABSA GROUP             | R 16 000 000          | R 16 000 000  | 12            | 8.00%    | 02-Mar-04     | 01-Mar-05     | 138       |          |            |           |            |            | 19 000 000 |            |            |           | 16 000 000  |
| ABSA GROUP             | R 19 000 000          | R 19 000 000  | 11            | 8.10%    | 08-Apr-04     | 08-Mar-05     | 145       |          |            | 1 000 000 |            |            |            |            |            |           | 19 000 000  |
| ABSA GROUP             | R 1 000 000           | R 1 000 000   | 6             | 8.00%    | 28-Jun-04     | 28-Dec-04     | 75        |          |            |           |            |            |            |            |            | 2 000 000 | 1 000 000   |
| ABSA GROUP             | R 2 000 000           | R 2 000 000   | 10            | 7.25%    | 14-Sep-04     | 14-Jul-05     | 273       |          |            |           |            |            |            |            |            |           | 2 000 000   |
| STANDARD BANK Inv Corp | R 26 000 000          | R 15 000 000  | 12            | 7.50%    | 13-Nov-03     | 11-Nov-04     | 28        |          | 15 000 000 |           |            |            | 1 000 000  |            |            |           | 15 000 000  |
| STANDARD BANK Inv Corp | R 1 000 000           | R 1 000 000   | 12            | 8.20%    | 02-Mar-04     | 01-Mar-05     | 138       |          |            | 5 000 000 |            |            |            |            |            |           | 1 000 000   |
| STANDARD BANK Inv Corp | R 5 000 000           | R 5 000 000   | 3             | 7.25%    | 14-Sep-04     | 14-Dec-04     | 61        |          |            |           | 5 000 000  |            |            |            |            |           | 5 000 000   |
| STANDARD BANK Inv Corp | R 41 000 000          | R 3 000 000   | 12            | 7.50%    | 13-Nov-03     | 11-Nov-04     | 28        |          | 3 000 000  |           |            |            |            | 13 000 000 |            |           | 3 000 000   |
| NEDCOR BANK            | R 13 000 000          | R 13 000 000  | 10            | 8.30%    | 01-Jun-04     | 01-Apr-05     | 169       |          |            | 2 000 000 |            |            |            |            |            |           | 13 000 000  |
| NEDCOR BANK            | R 2 000 000           | R 2 000 000   | 6             | 8.05%    | 28-Jun-04     | 28-Dec-04     | 75        |          |            |           |            |            |            |            |            |           | 2 000 000   |
| NEDCOR BANK            | R 9 000 000           | R 9 000 000   | 5             | 8.15%    | 11-Aug-04     | 11-Jun-05     | 89        |          |            |           | 10 000 000 |            |            |            |            |           | 9 000 000   |
| NEDCOR BANK            | R 4 000 000           | R 4 000 000   | 4             | 7.40%    | 14-Sep-04     | 14-Jan-05     | 92        |          |            |           | 4 000 000  |            |            |            |            |           | 4 000 000   |
| FIRST RAND BANK        | R 10 000 000          | R 10 000 000  | 12            | 7.45%    | 13-Nov-03     | 11-Nov-04     | 28        |          | 10 000 000 |           |            |            |            |            |            |           | 10 000 000  |
| FIRST RAND BANK        | R 6 000 000           | R 6 000 000   | 9             | 8.00%    | 05-Feb-04     | 05-Nov-04     | 22        |          | 6 000 000  |           |            |            |            |            |            |           | 6 000 000   |
| FIRST RAND BANK        | R 7 000 000           | R 7 000 000   | 12            | 8.10%    | 02-Mar-04     | 01-Mar-05     | 138       |          |            |           |            |            | 7 000 000  |            |            |           | 7 000 000   |
| FIRST RAND BANK        | R 8 000 000           | R 8 000 000   | 12            | 8.30%    | 08-Apr-04     | 07-Apr-05     | 175       |          |            |           |            |            |            | 8 000 000  |            |           | 8 000 000   |
| FIRST RAND BANK        | R 11 000 000          | R 11 000 000  | 12            | 8.50%    | 01-Jun-04     | 31-May-05     | 229       |          |            |           |            |            |            |            | 11 000 000 |           | 11 000 000  |
| FIRST RAND BANK        | R 5 000 000           | R 5 000 000   | 7             | 8.05%    | 11-Aug-04     | 11-Mar-05     | 148       |          |            |           | 5 000 000  |            |            |            |            |           | 5 000 000   |
| INVESTEC               | R 12 000 000          | R 5 000 000   | 7             | 8.42%    | 28-Jun-04     | 28-Jan-05     | 106       |          |            |           |            | 6 000 000  |            |            |            |           | 5 000 000   |
| INVESTEC               | R 6 000 000           | R 6 000 000   | 8             | 8.53%    | 28-Jun-04     | 28-Feb-05     | 137       |          |            |           |            |            |            | 1 000 000  |            |           | 6 000 000   |
| INVESTEC               | R 1 000 000           | R 1 000 000   | 8             | 8.25%    | 11-Aug-04     | 11-Apr-05     | 179       |          |            |           |            |            |            |            |            |           | 1 000 000   |
| 24                     | R 166 000 000         | R 166 000 000 |               |          |               |               |           | 0        | 36 000 000 | 8 000 000 | 24 000 000 | 15 000 000 | 48 000 000 | 22 000 000 | 11 000 000 | 2 000 000 | 166 000 000 |
| CALL ACCOUNT           | R 1 000 000           |               |               |          |               |               |           |          |            |           |            |            |            |            |            |           | 0           |



# Sarah Baartman

DISTRICT MUNICIPALITY

*Province of the Eastern Cape*

*progress through development*

## **REVISED SUPPLY CHAIN MANAGEMENT POLICY**

**May 2017**



## **SARAH BAARTMAN MUNICIPALITY**

### **REVISED MUNICIPAL SUPPLY CHAIN MANAGEMENT POLICY**

#### **LOCAL GOVERNMENT: MUNICIPAL FINANCE MANAGEMENT ACT, 2003**

##### **Date of adoption:**

Council resolves in terms of section 111 of the Local Government Municipal Finance Management Act (No. 56 of 2003), to adopt the under-mentioned revised policy as the Supply Chain Management Policy of the municipality.

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## 1. Definitions

In this policy, the singular includes the plural and vice versa, any one gender includes both genders and, unless the context otherwise indicates, a word or expression to which a meaning has been assigned in the Municipal Finance Management Act has the same meaning as in this Act, and -

**"Accounting Officer"** means the manager of the municipal administration and accounting officer of the municipality appointed by the council in terms of section 54A of the Local Government: Municipal Systems Act No. 32 of 2000 and includes any employee of the municipality who acts in his stead and, in the event of the municipality being subject to an intervention in terms of section 139 of the Constitution or any other applicable law, includes the "Administrator" appointed as a consequence of such intervention or in terms of the conditions pertaining thereto;

**"All applicable taxes"** includes value-added tax, pay as you earn, income tax, skills development levies and unemployment insurance fund contributions;

**"B-BBEE"** means broad-based black economic empowerment as defined in section 1 of the Broad-Based Black Economic Empowerment Act;

**"B-BBEE status level of contributor"** means the B-BBEE status received by a measured entity based on its overall performance using the relevant scorecard contained in the Codes of Good Practice on Black Economic Empowerment;

**"Black people"** is a generic term which means Africans, Coloureds and Indians;

**"Broad-Based Black Economic Empowerment Act"** means the Broad-Based Black Economic Empowerment Act No. 53 of 2003;

**"Chief Financial Officer"** means the official of the municipality designated as such in terms of section 80(2)(a) of the Municipal Finance Management Act;

**"CIDB regulations"** means any regulations issued in terms of the Construction Industry Development Board Act No. 38 of 2000;

**"Codes of Good Practice"** means the Codes of Good Practice on Black Economic Empowerment issued in terms of section 9 (1) of the Broad-Based Black Economic Empowerment Act and contained in General Notice 12 of 9 February 2007;

**"Comparative price"** means the price after the factors of a non-firm price and all unconditional discounts that can be utilized, have been taken into consideration;

**"Competitive bidding process"** means a competitive bidding process referred to in paragraph 12 (1)(e) of this policy;

**"Competitive bid"** means a bid in terms of a competitive bidding process;

**"Consortium or joint venture"** means an association of persons for the purpose of combining their expertise, property, capital, efforts, skill and knowledge in an activity for the execution of a contract;

**"Construction works"** means the provision of a combination of goods and services arranged for the development, extension, installation, repair, maintenance, renewal, removal,

renovation, alteration, dismantling or demolition of a fixed asset including building and engineering infrastructure;

**“Contractor”** means a person or body of persons who undertakes to execute and complete construction works for or on behalf of the municipality;

**“Contract”** means the agreement that results from the acceptance of a tender by the municipality in accordance with this policy;

**“Council”** means the council of Sarah Baartman District Municipality;

**“Day”** unless expressly otherwise provided in this policy, means a calendar day, provided that when any particular number of days is prescribed for the doing of any act, or for any other purpose, the same shall be reckoned exclusively of the first and inclusively of the last day, unless the last day happens to fall on a Sunday or on any public holiday, in which case the time shall be reckoned exclusively of the first day and exclusively also of every such Sunday or public holiday;

**“Designated Official”** means the official of the municipality to whom the accounting officer or the chief financial officer, as the case may be, have, in accordance with sections 79 and 82 of the Municipal Finance Management Act No. 56 of 2003 delegated powers, functions and duties in connection with the application and implementation of this policy;

**“Designated sector”** means a sector, sub-sector or industry that has been designated by the Department of Trade and Industry in line with national development and industrial policies for local production, where only locally produced services, works or goods or locally manufactured goods meet the stipulated minimum threshold for local production and content;

**“Final award”** in relation to bids or quotations submitted for a contract, means the final decision on which a bid or quote was accepted;

**“Firm price”** means the price that is only subject to adjustments in accordance with the actual increase or decrease resulting from the change, imposition, or abolition of customs or excise duty and any other duty, levy or tax which, in terms of any applicable law or regulation, is binding on the contractor and demonstrably has an influence on the price of any supplies or the rendering costs of any service, for the execution of a contract;

**“Formal written price quotations”** means quotations referred to in paragraph 12 (1) (d) of this policy;

**“Functionality”** means the measurement according to predetermined norms, as set out in the tender specification, of a service or commodity that is designed to be practical and useful, working or operating, taking into account, among other factors, the quality, reliability, viability and durability of a service and the technical capacity and ability of a tenderer;

**“Fronting”** means a deliberate circumvention or attempted circumvention of the "Broad-Based Black Economic Empowerment Act and the Codes of Good Practice;

**“Head of Department”** means a senior manager as defined in the Municipal Finance Management Act and who is responsible for a vote as assigned by the accounting officer;

**“Imported content”** means that portion of the tender price represented by the cost of components, parts or materials which have been or are still to be imported (whether by the supplier or its sub-contractors) and which costs are inclusive of the costs abroad, plus freight

and other direct importation costs, such as landing costs, dock dues, import duty, sales duty or other similar tax or duty at the South African port of entry;

**"In the service of the state"** means to be -

- (a) A member of -
  - (i) any municipal council;
  - (ii) any provincial legislature; or
  - (iii) the National Assembly or the National Council of Provinces;
- (b) A member of the board of directors of any municipal entity;
- (c) An official of any municipality or municipal entity;
- (d) An employee of any national or provincial department, national or provincial public entity or constitutional institution within the meaning of the Act and the Public Finance Management Act, 1999 (Act No. 1 of 1999);
- (e) A member of the accounting authority of any national or provincial public entity; or
- (f) An employee of Parliament or a provincial legislature;

**"Line manager"** means a manager reporting directly to a senior manager and who is responsible for a cost centre as assigned by the relevant senior manager;

**"Local content"** means that portion of the tender price which is not included in the imported content, provided that local manufacture does take place;

**"Long term contract"** means a contract with a duration period exceeding one year;

**"List of accredited prospective providers"** means the list of accredited prospective providers which the municipality must keep in terms of paragraph 15 of this policy;

**"Mayor"** means the councillor elected by the council as Mayor in terms of section 48 of the Local Government: Municipal Structures Act No. 117 of 1998 read with section 58 of the Municipal Finance Management Act;

**"Municipality"** means the Sarah Baartman District Municipality, a district municipality established in terms of section 12 of the Local Government: Municipal Structures Act No. 117 of 1998 and includes any employee entitled to or duly authorized to perform any function or duty in terms of this policy and/or is responsible for the implementation of this policy or any part thereof;

**"Municipal Finance Management Act"** means the Local Government: Municipal Finance Management Act No. 56 of 2003 and, unless otherwise stated in this policy, any reference to "the Act" shall mean a reference to this Act;

**"Municipal Systems Act"** means the Local Government: Municipal Systems Act No. 32 of 2000 and includes the regulations under this Act;

**"Non-firm prices"** means all prices other than "firm" prices;

**"Other applicable legislation"** means any other legislation applicable to municipal supply chain management, including but not limited to -

- (a) the Preferential Procurement Policy Framework Act No. 5 of 2000;
- (b) the Broad-Based Black Economic Empowerment Act No. 53 of 2003;
- (c) The Construction Industry Development Board Act No. 38 of 2000;
- (d) The Local Government: Municipal Systems Act No. 32 of 2000 (Municipal Systems Act);

**"Person"** includes a juristic person;

**"Preferential Procurement Regulations"** means the Preferential Procurement Regulations, 2011 contained in Government Notice R 502 of 8 June 2011 promulgated in Government Gazette No. 34350 of this date;

**"Responsive bid"** means a bid that complies in all material aspects with the requirements set out in or contained in an invitation to bid including the applicable specification;

**"Small enterprise"** means a separate and distinct business entity, together with its branches or subsidiaries, if any, including cooperative enterprises, managed by one owner or more predominantly carried on in any sector or sub-sector of the economy mentioned in column 1 of the Schedule to the National Small Business Act No. 102 of 1996 which is contained in Annexure B to this policy and classified as a micro-, a very small, a small or a medium enterprise by satisfying the criteria mentioned in columns 3, 4 and 5 of the said schedule;

**"Stipulated minimum threshold"** means that portion of local production and content as determined by the Department of Trade and Industry from time to time;

**"Sub-contract"** means the primary contractor's assigning, leasing, making out work to, or employing, another person to support such primary contractor in the execution of part of a project in terms of a contract;

**"Rand value"** means the total estimated value of a contract in South African currency calculated at the time of tender invitations, and includes all applicable taxes and excise duties;

**"SANAS"** means the South African National Accreditation System;

**"Tender"** means a written offer in a prescribed or stipulated form in response to an invitation by the municipality for the provision of services, works or goods, through price quotations, advertised competitive tendering processes or proposals and **"bid"** has a corresponding meaning;

**"Total revenue"** bears the same meaning assigned to this expression in the Codes of Good Practice;

**"Trust"** means the arrangement through which the property of one person is made over or bequeathed to a trustee to administer such property for the benefit of another person;

**"Trustee"** means any person, including the founder of a trust, to whom property is bequeathed in order for such property to be administered for the benefit of another person;

**"Treasury guidelines"** means any guidelines on supply chain management issued by the Minister of Finance in terms of section 168 of the Municipal Finance Management Act;

**"The Regulations"** means the Local Government: Municipal Finance Management Act, 2003: Municipal Supply Chain Management Regulations published by Government Notice 868 of 2005;

**"Verification Certificate"** means a B-BBEE certificate issued in compliance with the B-BBEE Codes of Good Practice and all Sector Codes issued in terms of Section 9(1) of the Broad-Based Black Economic Empowerment Act;

**"Written quotations"** means quotations referred to in paragraph 12 (1) (c) of this policy.

## **CHAPTER 1**

### **IMPLEMENTATION OF SUPPLY CHAIN MANAGEMENT POLICY**

#### **2. Supply chain management policy**

- (1)** All officials and other role players in the supply chain management system of the municipality must implement this policy in a way that -
  - (a)** gives effect to Section 217 of the Constitution and Part 1 of Chapter 11 and other applicable provisions of the Act;
  - (b)** is fair, equitable, transparent, competitive and cost effective;
  - (c)** complies with the Regulations and any minimum norms and standards that may be prescribed in terms of section 168 of the Act;
  - (d)** is consistent with other applicable legislation;
  - (e)** does not undermine the objective for uniformity in supply chain management systems between organs of state in all spheres; and
  - (f)** is consistent with national economic policy concerning the promotion of investments and the conduct of business with the public sector.
- (2)** This policy applies when the municipality -
  - (a)** procures goods or services;
  - (b)** disposes of goods no longer needed;
  - (c)** selects contractors to provide assistance with the provision of municipal services otherwise than in circumstances where Chapter 8 of the Municipal Systems Act applies; or
  - (d)** selects external mechanisms referred to in section 80 (1) (b) of the Municipal Systems Act for the provision of municipal services in circumstances contemplated in section 83 of that Act.
- (3)** This policy, except where provided otherwise, does not apply in respect of the procurement of goods and services contemplated in section 110(2) of the Act, including, but not limited to -
  - (a)** water from the Department of Water Affairs or a public entity, another municipality or a municipal entity; and
  - (b)** electricity from Eskom or another public entity, another municipality or a municipal entity.



- (4) Notwithstanding anything to the contrary in this policy, the municipality shall not award a contract to a contractor in respect of the undertaking, carrying out or completion of any construction works or a portion thereof in terms of a competitive tender or quotation process provided for in this policy unless such contractor is registered with the Construction Industry Development Board established by section 2 of the Construction Industry Development Board Act No. 32 of 2000 and holds a valid registration certificate issued by such Board or is exempted from such registration either in terms of the Act or the "CIDB Regulations".

### **3. Amendment and adoption of the supply chain management policy**

- (1) The accounting officer must at least annually review the implementation of this policy and, when necessary, submit proposals for the amendment thereof to the council through the mayor acting in conjunction with the mayoral committee with a view to its adoption by the council.
- (2) If the accounting officer submits proposed amendments to this policy to the council, he must ensure that same comply with the Regulations and Treasury guideline standards determining standards for municipal supply chain management policies.
- (3) The accounting officer must report any deviation from the Regulations and Treasury guideline standards determining standards for municipal supply chain management policies to the National and Eastern Cape Provincial Treasuries.
- (4) When amending this policy, the need for uniformity in supply chain practices, procedures and forms between all spheres of organs of state particularly to promote accessibility of supply chain management systems for small businesses, must be taken into account.

### **4. Delegation of supply chain management powers and duties**

- (1) The council hereby delegates all powers and duties to the accounting officer which are necessary to enable him -
- (a) to discharge the supply chain management responsibilities conferred on accounting officers in terms of -
    - (i) chapters 8 or 10 of the Act; and
    - (ii) this policy; and
  - (b) to maximize administrative and operational efficiency in the implementation of this policy; and
  - (c) to enforce reasonable cost-effective measures for the prevention of fraud, corruption, favouritism and unfair and irregular practices in the implementation of this policy; and
  - (d) to comply with his responsibilities in terms of section 115 and other applicable provisions of the Act.
- (2) Sections 79 and 106 of the Act apply to the sub-delegation of powers and duties delegated to an accounting officer in terms of subparagraph (1).

- (3) The accounting officer may not sub-delegate any supply chain management powers or duties to a person who is not an official of the municipality or to a committee which is not exclusively composed of officials of the municipality.
- (4) This paragraph may not be read as permitting an official to whom the power to make final awards has been delegated, to make a final award in a competitive bidding process otherwise than through the committee system provided for in paragraph 27 of this policy.

## **5. Sub-delegations**

- (1) The accounting officer may, in terms of section 79 of the Act, sub-delegate any supply chain management powers and duties, including those bestowed upon him in terms of legislation or delegated to him in terms of this policy or by resolution of the council, but any such sub-delegation must be consistent with subparagraph (2) and paragraph 4 of this policy.
- (2) The power to make a final award -
  - (a) above R5 million (VAT included) may not be sub-delegated by the accounting officer;
  - (b) above R2 million (VAT included), but not exceeding R5 million (VAT included), may be sub-delegated but only to -
    - (i) the chief financial officer;
    - (ii) a senior manager; or
    - (iii) a bid adjudication committee of which the chief financial officer or a senior manager is a member;
  - (c) not exceeding R2 million (VAT included) may be sub-delegated but only to -
    - (i) the chief financial officer;
    - (ii) a senior manager; or
    - (iii) a manager directly accountable to the chief financial officer or a senior manager; or
    - (iv) a bid adjudication committee.
- (3) An official or bid adjudication committee to whom or which the power to make final awards has been sub-delegated in accordance with subparagraph (2) must, within five days of the end of each month, submit to the official referred to in subparagraph (4) a written report containing particulars of each final award made by such official or committee during that month, including -
  - (i) the amount of the award;
  - (ii) the name of the person to whom the award was made; and
  - (iii) the reason why the award was made to that person.
- (4) A written report referred to in subparagraph (3) must be submitted-

- (a) to the accounting officer, in the case of an award by -
  - (i) the chief financial officer;
  - (ii) a senior manager; or
  - (iii) a bid adjudication committee of which the chief financial officer or a senior manager is a member;
- (b) to the chief financial officer or the senior manager responsible for the relevant bid, in the case of an award by -
  - (i) a manager referred to in subparagraph (2)(c)(iii); or
  - (ii) a bid adjudication committee of which the chief financial officer or a senior manager is not a member.
- (5) Subparagraphs (3) and (4) do not apply to procurements out of petty cash.
- (6) This paragraph may not be interpreted as permitting an official to whom the power to make final awards has been sub-delegated, to make a final award in a competitive bidding process otherwise than through the committee system provided for in paragraph 27 of this policy.
- (7) No supply chain management decision-making powers may be delegated to an advisor or consultant.

## **6. Oversight role of the council**

- (1) A councillor cannot be a member of a bid committee or any other committee evaluating or approving quotations or bids nor attend any meeting of such committees as an observer.
- (2) The council must maintain oversight over the implementation of this policy to ensure that the accounting officer implements all supply chain management activities in accordance therewith.
- (3) For the purposes of such oversight, the accounting officer must -
  - (a) within 30 days of the end of each financial year, submit a report on the implementation of this policy to the council through its mayor;
  - (b) whenever there are serious and material problems in the implementation of this policy, immediately submit a report thereon to the council through its mayor.
- (4) The accounting officer must, within 10 days of the end of each quarter, submit a report on the implementation of this policy to the mayor.
- (5) The aforesaid reports must be made public in accordance with section 21A of the Municipal Systems Act.

## **7. Supply chain management unit**

- (1) A supply chain management unit is hereby established to implement this policy.
- (2) The supply chain management unit shall operate under the direct supervision of the chief financial officer to whom this duty is hereby delegated by the accounting officer in terms of section 82 of the Act.

#### **8. Training of supply chain management officials**

The training of officials involved in implementing this policy should be in accordance with any Treasury guidelines on supply chain management training and applicable prescribed competency level requirements.

### **CHAPTER 2** **SUPPLY CHAIN MANAGEMENT SYSTEM**

#### **9. Format of supply chain management system**

This policy provides systems for -

- (i) Demand management;
- (ii) Acquisition management;
- (iii) Logistics management;
- (iv) Disposal management;
- (v) Risk management; and
- (vi) Performance management.

#### **Part 1: Demand management**

#### **10. System of demand management**

- (1) The accounting officer must establish and implement an appropriate demand management system in order to ensure that the resources required by the municipality supports its operational commitments and its strategic goals as outlined in the municipality's Integrated Development Plan.
- (2) The demand management system must -
  - (a) include timely planning and management processes to ensure that all goods and services required by the municipality are quantified, budgeted for and timely and effectively delivered at the right locations and at the critical delivery dates and are of the appropriate quality and quantity procured at a fair cost;
  - (b) take into account any benefits of economies of scale that may be derived in the case of acquisitions of a repetitive nature;
  - (c) provide for the compilation of the required specifications to ensure that municipal needs are met;
  - (d) allow for the undertaking of appropriate industry analysis and research to ensure that innovations and technological benefits are maximized.
- (3) The accounting officer must, prior to making an invitation for tenders-

- (a) properly plan for, and, as far as possible, accurately estimate the costs for the provision of services, works or goods for which an invitation to tenders is to be made;
  - (b) determine and stipulate, in such invitation, the appropriate preference point system to be utilized in the evaluation and adjudication of such tenders; and
  - (c) determine whether the services, works or goods for which an invitation to tender is to be made has been designated for local production and content in terms of section 9 of the Preferential Procurement Regulations and paragraph 29(5) of this policy.
- (4) The accounting officer must indicate in the invitation to submit a tender and in the tender specification -
- (a) that such tender will be evaluated on functionality and, in such event, the following shall be clearly stated:
    - (i) the evaluation criteria for measuring functionality which criteria must be objective;
    - (ii) the weight of each criterion which should not be generic but be determined separately for each bid on a case by case basis;
    - (iii) the applicable values that will be utilized when scoring each criterion which values must be objective;
    - (iv) the minimum qualifying score for functionality in order to enable the bid concerned to be further evaluated in terms of this policy provided that the aforesaid qualifying score:
      - (a) should not be generic but be determined separately for each bid on a case by case basis; and
      - (b) should not be prescribed so low that it may jeopardize the quality of the service required nor so high that it may be restrictive to the extent that it jeopardizes the fairness of the supply chain management system;
  - (b) the fact that no tender will be regarded as an acceptable tender if it fails to achieve the minimum qualifying score for functionality as indicated in the invitation to tender and the relevant tender specification; and
  - (c) that tenders that have achieved the minimum qualification score for functionality will be evaluated further in terms of the preference point systems referred to in paragraphs 29(3) and 29(4) of this policy.
- (5) Any system designed in terms of this paragraph shall take cognizance of the provisions of this policy.

## **Part 2: Acquisition management**

### **11. System of acquisition management**

- (1) The accounting officer must implement an efficient system of acquisition management in order to ensure -
- (a) that goods and services are procured by the municipality in accordance with authorized processes only;
  - (b) that expenditure on goods and services is incurred in terms of an approved budget in terms of section 15 of the Act;
  - (c) that the threshold values for the different procurement processes are complied with;
  - (d) that bid documentation, evaluation and adjudication criteria and the general conditions of a contract, are in accordance with any applicable legislation; and
  - (e) that any Treasury guidelines on acquisition management are properly taken into account.
- (2) When procuring goods or services from an organ of state as contemplated in section 110 (2) of the Act, the accounting officer must make public the fact that such goods or services are procured otherwise than through the municipality's supply chain management system, including -
- (a) the kind of goods or services; and
  - (b) the name of the supplier.

## **12. Range of procurement processes**

- (1) Goods and services may only be procured by way of -
- (a) petty cash purchases up to a transaction value of R 2,000 (VAT included) for items specified in the municipality's Petty Cash policy;
  - (b) three written or verbal price quotations for procurements of a transaction value over R2,000 up to R10,000 (VAT included);
  - (c) three formal (closed) written price quotations for procurements of a transaction value over R 10,000 up to R200,000 (VAT included); and
  - (d) a competitive bidding process for -
    - (i) procurements above a transaction value of R200 000 (VAT included); and
    - (ii) the procurement of long term contracts.
- (2) The accounting officer may, in writing:
- (a) lower but not increase, the different threshold values specified in subparagraph (1) above; or
  - (b) direct that -
    - (i) written or verbal quotations be obtained for any specific procurement

- of a transaction value lower than R2 000;
    - (ii) formal written price quotations be obtained for any specific procurement of a transaction value lower than R10 000; or
    - (iii) a competitive bidding process be followed for any specific procurement of a transaction value lower than R200 000.
- (3) Calls for quotations and bids for the procurement of goods or services may not deliberately be split into parts or items of a lesser value merely to avoid complying with the requirements of this policy or any applicable legislation. When determining transaction values, a requirement for goods or services consisting of different parts or items must, as far as possible, be treated and dealt with as a single transaction.

### **13. Special categories of bidders and suppliers**

In order to promote B-BBEE and comply with applicable legislation including the Codes of Good Practice, this policy recognizes the following special categories of bidders and suppliers:

#### **13.1 Exempted Micro-Enterprise**

- (a) An exempted Micro-Enterprise (EME) is an entity with an annual turnover of R5 million or less provided that this amount may be reduced in accordance with sector charter thresholds for specific sectors or industries.
- (b) The current thresholds for the Tourism and Construction Sector charters are R2.5 million and R1.5 million respectively.
- (c) Exempted Micro-Enterprises are deemed to possess a B-BBEE Status of "Level Four Contributor", having a B-BBEE procurement recognition of 100%.
- (d) An Exempted Micro-Enterprise qualifies for a promotion to a B-BBEE Status of "Level Three Contributor" having a B-BBEE procurement recognition of 110% if it is more than 50% owned by black people or by black women.
- (e) Exempted Micro-Enterprises are allowed to be measured in terms of the QSE scorecard contained in the applicable code of good practice in the event of them wishing to maximize their points and move to the next procurement recognition level.
- (f) Sufficient evidence of qualification as an Exempted Micro-Enterprise is an auditor's certificate or similar certificate issued by an accounting officer of a closed corporation or a verification agency accredited by SANAS.

#### **13.2 Qualifying Small Enterprise**

- (a) Any enterprise with an annual Total Revenue of between R5 million and R35 million qualifies as a Qualifying Small Enterprise.
- (b) Enterprises claiming qualifying small enterprise status must include in any bid submitted to the municipality, an original and valid B-BBEE status level certificate or a certified copy thereof, substantiating their B-BBEE rating. This certificate must be issued by a verification agency accredited by SANAS or a Registered Auditor approved by the Independent Regulatory Board of

Auditors.

### **13.3 Start-up enterprises**

- (a) Start-up enterprises must be measured as Exempted Micro-Enterprises for the first year following their formation or incorporation. This provision applies regardless of the expected total revenue of the start-up enterprise.
- (b) Start-up Enterprises are deemed to have a "B-BBEE Status of Level Four Contributor".
- (c) In order to qualify as a Start-up Enterprise, the enterprise must provide an independent confirmation of its status.
- (d) Despite subparagraphs (a) and (b), Start-up Enterprises must submit a QSE Scorecard when tendering for any contract or seeking any other business with a value higher than R5 million but less than R35 million. For contracts above R35 million, they should submit the generic scorecard. The preparation of such scorecards must use annualized data.
- (e) The accounting officer shall reserve the right to require a Start-up Enterprise referred to in subparagraph (d) to submit a verification certificate issued by either a verification agency approved by SANAS or a Registered Auditor approved by the Independent Regulatory Board of Auditors.

### **14. General preconditions for consideration of written quotations or bids**

- (1) A written quotation or bid may not be considered unless the provider who submitted the quotation or bid concerned -
  - (a) has furnished his -
    - (i) full name or names including trading name;
    - (ii) identification number or company or other registration number;
    - (iii) tax reference number and VAT registration number, if any;
    - (iv) registration number in terms of section 18(1) of the Construction Industry Development Board Act in the event of quotes or bids being submitted for construction works or portion thereof;
  - (b) has provided the municipality with an original valid tax clearance certificate from the South African Revenue Services stating that his tax matters are in order;
  - (c) has, where applicable, provided the municipality with a clearance certificate from the Construction Industry Development Board to the effect that he holds a valid registration certificate issued by the Board;
  - (d) has provided the municipality with a "Certificate of Independent Bid Determination" on Form MBD 9 or a similar form;
  - (e) has certified that he and, in the event of the bidder being a company, also any of its directors, is not indebted to the municipality or to any other municipality or municipal entity for rates, taxes and/or municipal service which are in arrear for a period of more than three months and that no dispute exists between such bidder and the relevant municipality or municipal entity in respect of any such arrear amounts;



- (f) has submitted an affidavit certifying -
  - (i) that he is not in the service of the state or has been in the service of the state in the previous twelve months;
  - (ii) that, in the event of the bidder not being a natural person, none of its directors, managers, principal shareholders or stakeholders are in the service of the state nor have they been in the service of the state in the previous twelve months; or
  - (iii) that neither his spouse, child or parent nor a director, manager, shareholder or stakeholder referred to in subparagraph (ii) is in the service of the state or has been in the service of the state in the previous twelve months.
- (g) has submitted the prescribed B-BBEE status level certificate, an auditors', accounting officer or independent confirmation of status certificate, as the case may be.

(2) This paragraph must be read in conjunction with paragraph 22 of this policy.

#### **15. Lists of accredited prospective providers**

- (1) The accounting officer must -
  - (a) keep a list of accredited prospective providers of goods and services that must be used for the procurement requirements through written or verbal quotations and formal written price quotations; and
  - (b) at least once a year through newspapers commonly circulating locally, the municipal website and any other appropriate ways, invite prospective providers of goods or services to apply for evaluation and listing as accredited prospective providers;
  - (c) specify the listing criteria for accredited prospective providers; and
  - (d) disallow the listing of any prospective provider whose name appears on the National Treasury's database as a person prohibited from doing business with the public sector.
- (2) The aforesaid list must be updated at least quarterly to include any additional prospective providers and any new commodities or types of services. Prospective providers must be allowed to submit applications for listing at any time.

(3) The aforesaid list must also be compiled per commodity and per type of service.

#### **16. Petty cash purchases**

- (a) Petty cash purchases may only be made in accordance with the Petty Cash policy of the municipality.
- (b) The accounting officer may delegate responsibility for the management of petty cash to an official directly or indirectly reporting to the chief financial officer.

- (c) No item that is an approved stores item may be purchased by means of a petty cash transaction.
- (d) No fixed asset regardless of value may be purchased through petty cash.
- (e) The council must, from time to time, determine the maximum amount of the permissible petty cash expenditure per month;
- (f) For purposes of the application of this policy, it is recorded that the permissible monthly petty cash expenditure per department is, at present, R40 000 per month and further purchases not exceeding R2 000 per day;
- (g) A weekly reconciliation report must be provided to the chief financial officer within five days of the end of each month by the official authorized to make petty cash purchases and such report shall contain particulars of each final award made by such official during that month, including:
  - (i) the total amount of petty cash purchases for that month; and
  - (ii) receipts and supporting documents for each purchase.

#### **17. Written or verbal price quotations**

The conditions for the procurement of goods or services through written or verbal quotations are as follows:

- (a) Quotations must be obtained from at least three different providers preferably from, but not limited to, providers whose names appear on the list of accredited prospective providers of the municipality, provided that if quotations are obtained from providers who are not so listed, such providers must meet the listing criteria set out in paragraph 14(1)(b) and (c) of this Policy;
- (b) To the extent feasible, providers must be requested to submit such quotations in writing;
- (c) If it is not possible to obtain at least three quotations, the reasons for such inability must be recorded on the invitation to submit quotations and reported quarterly to the chief financial officer;
- (d) The designated officer must record the names of the potential providers requested to provide quotations with their quoted prices; and
- (e) If a quotation was submitted verbally, the order may be placed only against written confirmation of the price and conditions of supply by the selected provider within the period stipulated in the invitation to submit quotations.

#### **18. Formal written price quotations**

The conditions for the procurement of goods or services through formal written price quotations, are as follows:

- (a) Quotations must be obtained in writing from at least three different providers whose names appear on the list of accredited prospective providers of the municipality;

- (b) In the event of it not being possible to obtain quotations from at least three different providers whose names appear on the list of accredited prospective providers of the municipality, quotations may be obtained from providers who are not so listed, provided that such providers meet the listing criteria set out in paragraph 14 (1) (b) and (c) of this policy and, provided further, that the reasons for obtaining such quotations from the providers concerned must be recorded on the invitation to submit quotations and be approved by the chief financial officer.

**19. Procedures for procuring goods or services through written or verbal quotations and formal written price quotations**

The procedure for the procurement of goods or services through written or verbal quotations or formal written price quotations is as follows:

- (a) When using the list of accredited prospective providers, the accounting officer must promote ongoing competition amongst providers by inviting providers to submit quotations on a rotation basis;
- (b) All requirements in excess of R30 000 (VAT included) that are to be procured by means of formal written price quotations must, in addition to the requirements of paragraph 17, be advertised for at least seven days on the website of and on the official notice board of the municipality;
- (c) Offers received must be evaluated on a comparative basis taking into account unconditional discounts;
- (d) Offers below R30 000 (all taxes included) must be awarded based on compliance with specifications, conditions of contract, ability, capacity and capability to deliver the required goods and/or services and lowest price; provided that the accounting officer may direct, in appropriate cases, that the formula referred to in subparagraph (e) be used to calculate points for price;
- (e) Offers above R30 000 (all applicable taxes included) must be awarded based on compliance with specifications, conditions of contract, ability, capacity and capability to deliver the required goods and/or services and lowest price provided that the accounting officer may direct, in appropriate cases, that the following formula be used to calculate points for price:

$$P_s = 80 \left[ 1 - \frac{P_t - P_{min}}{P_{min}} \right]$$

Where:

- $P_s$  = Points scored for comparative price of tender or offer under consideration;
- $P_t$  = Comparative price of tender or offer under consideration; and
- $P_{min}$  = Comparative price of lowest acceptable tender or offer.

- (f) Prior to the award of a contract with a price in excess of R10 000, the designated official must verify the status of recommended bidders (including their directors(s), owners(s) or trustee(s) by checking the Data Base of Restricted Suppliers maintained by National Treasury in order to ensure that no recommended bidder or any of its directors/owners/trustees are listed as companies or persons prohibited from doing

business with the public sector;

- (g) A call for quotations in terms of foregoing paragraphs must be in writing and contain a specification for the goods and/or services to be procured as well as details of the preference points system to be used in adjudicating quotations;
- (h) The designated official must, in writing, notify the chief financial officer within 3 days after the end of each month of all written, verbal and formal written price quotations accepted or approvals given in terms of the foregoing subparagraphs;
- (i) The chief financial officer must ensure that adequate systems are in place to meet the requirements for proper record keeping;
- (j) Acceptable offers must be awarded to the bidder who scored the highest points in accordance with the stipulated preference points system.

## **20. Competitive bidding process**

- (1) Subject to paragraph 11 (2) of this policy, goods or services above a transaction value of R200 000 (VAT included) and long term contracts may only be procured through a competitive bidding process.
- (2) No requirement for goods or services above an estimated transaction value of R200 000 (VAT included) may deliberately be split into parts or items of lesser value merely for the sake of procuring the goods or services otherwise than through a competitive bidding process.
- (3) The accounting officer may split unduly large quantities of work into smaller contracts (units) to promote manageability and provide opportunities for emerging entrepreneurs. This procedure may only be followed when technically, logistically and financially feasible.

## **21. Process for competitive bidding**

The procedures for the following stages of a competitive bidding process are as follows:

- (a) Compilation of bidding documentation as detailed in paragraph 22;
- (b) Public invitation of bids as detailed in paragraph 23;
- (c) Site meetings or briefing sessions as detailed in paragraph 23;
- (d) Handling of bids submitted in response to public invitation as detailed in paragraph 24;
- (e) Evaluation of bids as detailed in paragraph 32;
- (f) Award of contracts as detailed in paragraph 33;
- (g) Administration of contracts - after the award of a bid, the accounting officer and the bidder must enter into a written agreement.
- (h) Proper record keeping;
- (i) Original/legal copies of written contracts agreements should be kept in a secure place for reference and audit purposes.

## **22. Bid documentation for competitive bids**

Bid documentation for a competitive bidding process must, in addition to the requirements of paragraph 14 -

- (a)** Take into account -
  - (i)** the general conditions of contract and any special conditions of contract, if specified;
  - (ii)** any Treasury guidelines on bid documentation;
  - (iii)** the requirements of the Construction Industry Development Board, in the case of a bid relating to construction works;
  - (iv)** relevant B-BBEE verification and certification requirements;
  - (v)** relevant local content or production requirements.
- (b)** Include the preference points system to be used in adjudicating bids, namely 80/20 or 90/10 as prescribed in the Preferential Procurement Regulations;
- (c)** Compel bidders to declare, by means of an affidavit, any conflict of interest they may have in the transaction for which the bid is submitted;
- (d)** Compel bidders to submit a "Certificate of Independent Bid Determination" on form MBD 9 or similar document;
- (e)** If the value of the transaction is expected to exceed R5 million (VAT included), require bidders to furnish -
  - (i)** if the bidder is required by law to prepare annual financial statements for auditing, his audited annual financial statements -
    - (a)** for the past three years; or
    - (b)** since establishment, if established during the past three years;
  - (ii)** a certificate signed by the bidder certifying that he has no undisputed commitments for municipal services towards a municipality or other service provider in respect of which payment is overdue for more than 30 days;
  - (iii)** particulars of any contracts awarded to the bidder by an organ of state during the past five years, including particulars of any material non-compliance or dispute concerning the execution of such contracts;
  - (iv)** a statement indicating whether or not any portion of the goods or services required by the municipality are expected to be sourced from outside the Republic, and, if so, what portion and also whether or not any portion of the payment to be made by the municipality is expected to be transferred out of the Republic; and
- (f)** Stipulate that disputes must be settled by means of mutual consultation, mediation

(with or without legal representation), or, when unsuccessful, in a South African court of law.

## **23. Public invitation for competitive bids**

(1) The procedure for the invitation of competitive bids is as follows:

- (a) any invitation to prospective providers to submit bids must be by means of a public advertisement in newspapers commonly circulating locally, the website of the municipality and in any other appropriate manner (which may include an advertisement in the Government Tender Bulletin); and
- (b) the information contained in a public advertisement, must include -
  - (i) subject to subparagraph 2, the closure date for the submission of bids, which may not be less than 30 days in the case of transactions over R5 million (VAT included) or which are of a long term nature, or 14 days in any other case, reckoned from the date on which the advertisement is placed in a newspaper;
  - (ii) a statement that bids may only be submitted on the bid documentation provided by the municipality; and
  - (iii) the date, time and venue of any compulsory site meetings or briefing session;
  - (iv) a statement to the effect that a bid from a prospective bidder who did not attend a prescribed compulsory site meeting or briefing session referred to in subparagraph (iii) will not be considered.

(2) The accounting officer may determine a closure date for the submission of bids which is less than the 30 or 14 days requirement, but only if such shorter period can be justified on the grounds of urgency or emergency or in any exceptional case where it is impractical or impossible to follow the official procurement process and such fact shall, for auditing purposes, be recorded in the authority to invite bids.

(3) Bids submitted must be sealed and marked in a manner stipulated in the invitation to bid.

(4) Where bids are requested in electronic format, such bids must be supplemented by sealed hard copies which must reach the accounting officer before the closing time for the receipt of bids on the bid closing date as stipulated in the invitation to bid.

(5) Where the municipality invites expressions of interest or bids for construction works with a value in excess of R30 000, it must publish such invitations on the website of the CIDB.

(6) The municipality must also comply with the applicable provisions of the Standard for Uniformity in Construction Procurement contained in Board Notice No. 86 of 2010 issued by the Construction Industry Development Board insofar as such provisions relate to the invitation of bids.

## **24. Procedure for handling, opening and recording of bids**

The procedures for the handling, opening and recording of bids, are as follows:

- (a) Bids -
  - (i) must be opened only in public;
  - (ii) must be opened at the same time and as soon as possible after the published closing time or period for the submission of bids; and
  - (iii) received after the published closing time or period should not be considered and be returned to the bidder, unopened, immediately.
- (b) Any bidder or member of the public has the right to request that the names of the bidders who submitted responsive bids before the closing time or period be read out and, if practical, also each bidder's total bidding price;
- (c) No information, except the information referred to in subparagraph (b), relating to a bid should be disclosed to bidders or other persons until the successful bidder is notified of the award of the relevant bid; and
- (d) The designated official opening received bids must -
  - (i) record in a register to be provided for this purposes, all bids received before the closing time or period for the submission of same;
  - (ii) make the aforesaid register available for public inspection during the normal office hours of the municipality; and
  - (iii) publish the entries in the aforesaid register and the bid results on the website of the municipality.

## **25. Negotiations with preferred bidders**

- (1) The accounting officer may negotiate the final terms of a contract with bidders identified through a competitive bidding process as preferred bidders, provided that such negotiation -
  - (a) does not allow any preferred bidder a second or unfair opportunity;
  - (b) is not to the detriment of any other bidder; and
  - (c) does not lead to a higher price than the bid as submitted;
  - (d) will not be contrary to any legal requirement or amount to a prohibited practice.
- (2) Minutes of such negotiations must be kept for record and audit purposes.

## **26. Two-stage bidding process**

- (1) A two-stage bidding process is permissible for -
  - (a) large complex projects;
  - (b) projects where it may be undesirable to prepare complete detailed technical specifications; or



- (c) long term projects with a duration period exceeding three years.
- (2) In the first stage, technical proposals on conceptual design or performance specifications should be invited, subject to technical as well as commercial clarifications and adjustments.
- (3) In the second stage, final technical proposals and priced bids should be invited.

## **27. Committee system for competitive bids**

- (1) A committee system for competitive bids shall be established, consisting of the following committees for procurement as the accounting officer may determine:
  - (a) a bid specification committee;
  - (b) a bid evaluation committee; and
  - (c) a bid adjudication committee;
- (2) The accounting officer shall, in writing, appoint the members of each committee in respect of each competitive bid invitation, taking into account the provisions of section 117 of the Act in terms of which no councillor may be a member of any such committee or attend any of its meetings as an observer.
- (3) A neutral or independent observer, appointed by the accounting officer, may attend or oversee a committee when this is appropriate for ensuring fairness and promoting transparency.
- (4) The committee system must be consistent with -
  - (a) paragraphs 28, 32 and 33 of this policy; and
  - (b) any other applicable legislation.
- (5) The accounting officer may, in appropriate cases and in his sole discretion, apply the committee system to formal written price quotations.

## **28. Bid specification committees**

- (1) A bid specification committee must compile the specifications for procurement of goods or services by the municipality.
- (2) A bid specification committee must be composed of one or more officials of the municipality preferably the line manager responsible for the function concerned, and may, when appropriate, include external specialist advisors.
- (3) No person, advisor or corporate entity involved with the bid specification committee, or director of such a corporate entity, may bid for any resulting contracts.
- (4) Where a bid specification is compiled with due regard to the findings and recommendations contained in a prior, associated feasibility study, the person, advisor or corporate entity who or which prepared the said feasibility study may be prohibited from bidding for the resulting contracts in circumstances where such person, advisor or corporate entity may obtain an unfair advantage or where a conflict of interest may arise.



- (5) A specification referred to in this paragraph must be approved by the accounting officer in writing prior to publication of the invitation for bids in terms of paragraph 23.

## **29. Specifications**

### **29.1 General Requirements**

Specifications -

- (a) must be drafted in an unbiased manner to allow all potential suppliers to offer their goods or services to the municipality;
- (b) must take account of any accepted standards such as those issued by Standards South Africa, the International Standards Organization or an authority accredited or recognized by the South African National Accreditation System with which the equipment or material or workmanship should comply;
- (c) must, where possible, be described in terms of performance required rather than in terms of descriptive characteristics for design;
- (d) may not create trade barriers in contract requirements in the forms of specifications, plans, drawings, designs, testing and test methods, packaging, marking or labelling of conformity certification;
- (e) may not make reference to any particular trade mark, name, patent, design, type, specific origin or producer unless there is no other sufficiently precise or intelligible way of describing the characteristics of the work, in which case such reference must be accompanied by the word "equivalent";

### **29.2 Functionality**

Where functionality is utilized as an evaluation criterion, specifications must clearly specify:

- (i) the evaluation criteria for measuring functionality which criteria must be objective, the weight of each criterion, the applicable values and the minimum qualifying score for functionality; and
- (ii) the fact that no tender will be regarded as an acceptable tender if it fails to achieve the minimum qualifying score for functionality as indicated in the tender specification concerned; and
- (iii) that tenders that have achieved the minimum qualification score for functionality will be evaluated further in terms of the preference point systems referred to in subparagraphs (3) and (4) below.

### **29.3 80/20 Preference Points System**

- (3.1) Where applicable, specifications must include the following preference points evaluation system for the acquisition of services, works or goods up to a Rand value of R1 000 000 (all applicable taxes included):
- (i) the following formula will be used to calculate the points for price in respect of tenders (including price quotations) with a Rand value equal

to, or above R 30 000 and up to a Rand value of R1 000 000 (all applicable taxes included):

$$P_s = 80 \left[ 1 - \frac{P_t - P_{min}}{P_{min}} \right]$$

Where:

$P_s$  = Points scored for comparative price of tender or offer under consideration;

$P_t$  = Comparative price of tender or offer under consideration; and

$P_{min}$  = Comparative price of lowest acceptable tender or offer.

- (ii) subject to subparagraph (iii), points must be awarded to a tenderer for attaining the B-BBEE status level of contributor in accordance with the following tables:

| B-BBEE Status Level of Contributor | Number of Points |
|------------------------------------|------------------|
| 1                                  | 20               |
| 2                                  | 18               |
| 3                                  | 16               |
| 4                                  | 12               |
| 5                                  | 8                |
| 6                                  | 6                |
| 7                                  | 4                |
| 8                                  | 2                |
| Non-compliant contributor          | 0                |

Or

In respect of Exempted Micro Enterprises (EME's)

| Black Ownership of EME | Deemed B-BBEE Status Level of Contributor | Number of Preference Points |
|------------------------|---|-----------------------------|
| More than 50%          | 3   | 16                          |
| Less than 50%          | 4   | 12                          |

- (iii) a maximum of 20 points may be allocated under subparagraph (ii);
- (iv) the points scored by a tenderer in respect of B-BBEE contribution contemplated in subparagraph (ii) must be added to the points scored for price as calculated in accordance with subparagraph (i);

(3.2) The B-BBEE status level attained by a tenderer must be used to determine the number of points contemplated in subparagraph 3.1 (ii).

- (3.3) Specifications must also must provide, as a special condition of contract, that, in the event of all tenders received exceeding the estimated Rand value of R1 000 000, the tender invitation will be cancelled, provided that if one or more of the acceptable tenders received are within the aforesaid threshold of R1 000 000, all tenders received will be evaluated in accordance with this preference point system.

#### 29.4 90/10 Preference Points System

- (4.1) Where applicable, specifications must include the following preference points evaluation system for the acquisition of services, works or goods with a Rand value above R1 000 000 (all applicable taxes included):

- (i) the following formula will be used to calculate the points for price in respect of tenders with a Rand value above R1 000 000 (all applicable taxes included):

$$Ps = 90 \left[ 1 - \frac{Pt - Pmin}{Pmin} \right]$$

Where:

Ps = Points scored for comparative price of tender or offer under consideration;

Pt = Comparative price of tender or offer under consideration; and

Pmin = Comparative price of lowest acceptable tender or offer.

- (ii) subject to subparagraph (iii), points must be awarded to a tenderer for attaining the B-BBEE status level of contributor in accordance with the following table:

| B-BBEE Status Level of Contributor | Number of Points |
|------------------------------------|------------------|
| 1                                  | 10               |
| 2                                  | 9                |
| 3                                  | 8                |
| 4                                  | 5                |
| 5                                  | 4                |
| 6                                  | 3                |
| 7                                  | 2                |
| 8                                  | 1                |
| Non-compliant contributor          | 0                |

Or

In respect of Exempted Micro Enterprises (EME's)

| Black Ownership of EME | Deemed B-BBEE Status Level of Contributor | Number of Preference Points |
|------------------------|---|-----------------------------|
| More than 50%          | 3   | 8                           |

|               |   |   |
|---------------|---|---|
| Less than 50% | 4 | 5 |
|---------------|---|---|

- (iii) a maximum of 10 points may be allocated under subparagraph (ii).
- (iv) the points scored by a tenderer in respect of the level of B-BBEE contribution contemplated in subparagraph (ii) must be added to the points scored for price as calculated in accordance with subparagraph (i);

(4.2) The B-BBEE status level attained by a tenderer must be used to determine the number of points contemplated in subparagraph 4.1 (ii).

(4.3) Specifications must also must provide as a special condition of contract, that, in the event of all tenders received being equal to, or below R1 000 000, the invitation to tender will be withdrawn and all tenders received shall be regarded as having been cancelled provided that, If one or more of the acceptable tenders received are above the prescribed threshold of R 1 000 000, all tenders received will be evaluated in accordance with this preference point system.

## 29.5 Local Production

(5.1) Where, in the case of tenders in designated sectors, local production and content is of critical importance, the tender specification must clearly state, as a condition of tender, that only locally produced goods, services or works or locally manufactured goods, with a stipulated minimum threshold for local production and content, will be considered.

(5.2) The tender specification must also stipulate:

- (a) that the exchange rate to be used for the calculation of local content or local production will be the exchange rate published by the South African Reserve Bank at 12:00 on the date, one week (7 calendar days) prior to the closing date of the invited bid;
- (b) that only the South African Bureau of Standards (SABS) approved technical specification number SATS 1286:201x will be used to calculate local content in accordance with the following formula:

$$LC = 1 - \frac{x}{y} \times 100$$

Where

x imported content

y bid price excluding value added tax (VAT)

and that the prices referred to in the determination of x must be converted to Rand (ZAR) by using the exchange rate published by the South African Reserve Bank at 12:00 on the date, one week (7 calendar days) prior to the closing date of the bid;

- (c) that the Form MBD 6.2 (Declaration Certificate for Local Content) duly

complete and signed must form part of the bid documentation;

- (d) that the municipality reserves the right to verify the accuracy of the rates of exchange quoted by the bidder in paragraph 4.1 of the aforesaid Certificate.

- (5.3) The accounting officer may decide to include in any invitation to bid a specific bidding condition that only locally produced goods, services or works or locally manufactured goods with a stipulated minimum threshold for local production and content, will be considered on condition that such prescript and threshold(s) are in accordance with the specific directives issued for this purpose by National Treasury in consultation with the Department of Trade and Industry and, in such event, the requirements stipulated in subparagraph 5.2 shall be inserted in the tender specification.
- (5.4) Where necessary, bid specifications for tenders referred to in subparagraph 5.1 may state that a two- stage tendering process will be followed, where the first stage will involve functionality and minimum threshold for local production and content and the second stage price and B-BBEE with the possibility of price negotiations only with the short listed tenderers with a view to effecting cost savings in circumstances where the tendered prices are obviously inflated or to ensure the award of the tender concerned within budgetary constraints provided that, where such negotiations take place, the principles contained in paragraph 25.1 of this policy shall be applied.
- (5.5) Any tender specification issued in terms of this subparagraph must be capable of being measured and audited.

## **29.6 B-BBEE status level certificates and scorecards**

Bid specifications must state that:

- (i) Those tenderers who qualify as Exempted Micro Enterprises (EME's) in terms of the Broad-Based Black Economic Empowerment Act, must submit, together with their tender, a certificate to this effect issued by a registered auditor, accounting officer (as contemplated in section 60(4) of the Close Corporations Act, 1984 (Act No. 69 of 1984)) or an accredited verification agency provided that a certificate issued by an Accounting Officer of a closed corporation must be on his letterhead which should also contain his practice number and contact number clearly specified on the face of such certificate.
- (ii) Tenderers other than Exempted Micro-Enterprises (EME's) must submit, with their tender, their original and valid B-BBEE Status Level Verification Certificate complying at least with the provisions subparagraphs (v) and (vi), or a certified copy thereof, in support of their B-BBEE rating.
- (iii) A trust, consortium or joint venture will qualify for points for its B-BBEE status level as a legal entity, provided it submits its B-BBEE Status Level Verification Certificate with its tender.
- (iv) A trust, consortium or joint venture will qualify for points for its B-BBEE status level as an unincorporated entity, provided that it submits its consolidated B-BBEE scorecard as if were a group structure and, provided further, that such a consolidated B-BBEE scorecard is prepared for every separate tender.

(v) As a minimum requirement, all valid B-BBEE Status Level Verification Certificates should have the following information detailed on the face of the certificate:

- The name and physical location of the measured entity;
- The registration number and, where applicable, the VAT number of the measured entity;
- The date of issue and date of expiry;
- The certificate number for identification and reference;
- The scorecard that was used (for example EME, QSE or Generic);
- The name and / or logo of the Verification Agency;
- The SANAS logo;
- The signature of the authorized person from the Verification Agency concerned; and
- The B-BBEE Status Level of Contribution obtained by the measured entity.

(vi) The format and content of B-BBEE Status Level Verification Certificates issued by registered auditors approved by the Independent Regulatory Board of Auditors (IRBA) must -

- Clearly identify the B-BBEE approved registered auditor by the auditor's individual registration number with IRBA and the auditor's logo;
- Clearly record an approved B-BBEE Verification Certificate identification reference in the format required by the SANAS;
- Reflect relevant information regarding the identity and location of the measured entity;
- Identify the Codes of Good Practice or relevant Sector Codes applied in the determination of the scores;
- Record the weighting points (scores) attained by the measured entity for each scorecard element, where applicable, and the measured entity's overall B-BBEE Status Level of Contribution;
- Reflect that the B-BBEE Verification Certificate and accompanying assurance report issued to the measured entity is valid for 12 months from the date of issuance;
- Reflect both the issuance and expiry date of the Verification Certificate.

## **29.7 Additional Conditions**

A bid specification must include a reference to the following additional conditions, where applicable:

### **29.7.1 Sub-contracting**

- (a) A person will not be awarded points for B-BBEE status level if it is indicated in the tender documents that such a tenderer intends sub-contracting more than 25% of the value of the contract to any other enterprise that does not qualify for at least the points that such a tenderer qualifies for, unless the intended sub-contractor is an exempted micro enterprise that has the capability and ability to execute the sub-contract.
- (b) A person awarded a contract may not sub-contract more than 25% of the value of the contract to any other enterprise that does not have an equal or higher B-BBEE status level than the person concerned, unless the contract is sub-contracted to an

exempted micro enterprise that has the capability and ability to execute the sub-contract.

- (c) A person awarded a contract in relation to a designated sector, may not sub-contract in such a manner that the local production and content of the overall value of the contract is reduced to below the stipulated minimum threshold.

#### **29.7.2 Specific goals**

- (a) In terms of section 7 of the Preferential Procurement Regulations, a contract may be awarded to a tenderer that did not score the highest total number of points, only in accordance with section 2 (1) (f) of the Preferential Procurement Policy Framework Act No. 5 of 2000.
- (b) In the application of section 2 (1)(f) of the aforesaid Act, the accounting officer may explicitly determine in any bid specification that a tenderer shall be required to attain a specific goal or goals *other* than and excluding the goals of contracting with historically disadvantaged persons and implementing Reconstruction and Development Programmes in order to qualify for the award of a contract.

#### **29.8 Miscellaneous Special Conditions of Contract**

A bid specification must, inter alia, include the following conditions as Special Conditions of Contract:

##### **29.8.1 General**

- (a) Only a tenderer who has completed and signed the declaration part of the tender documentation may be considered;
- (b) When comparative prices must be calculated, any discounts which have been offered unconditionally will be taken into account;
- (c) A discount which has been offered conditionally will, despite not being taken into account for evaluation purposes, be implemented when payment to a tenderer in respect of an accepted tender is effected;
- (d) Points scored will be rounded off to the nearest 2 decimal places.
- (e)
  - (i) In the event that two or more tenders score equal total points, the successful tender will be the one scoring the highest number of preference points for B-BBEE;
  - (ii) However, when functionality is part of the evaluation process and two or more tenders have scored equal points including equal preference points for B-BBEE, the successful tender will be the one scoring the highest score for functionality.
  - (iii) Should two or more tenders be equal in all respects, the award shall be decided by the drawing of lots.

##### **29.8.2 Cancelling a tender**

- (f) The accounting officer may, prior to the award of a tender, by notice in the media in which the original tender was advertised, cancel such tender if due to changed circumstances, there is no longer a need for the services, works or goods requested

or if funds are no longer available to cover the total envisaged expenditure or if no acceptable tenders are received.

### **29.8.3 Declarations**

**(g)** A tenderer must -

- (i)** declare that the information provided in a tender document is true and correct;
- (ii)** declare that the signatory to a tender document is duly authorised; and
- (iii)** undertake to submit documentary proof regarding any tendering issue when required to the satisfaction of the municipality.

### **29.8.4 Remedies**

**(h)** In addition to the action contemplated in paragraph 41 of this policy which shall be read in conjunction with this subparagraph:

- (i)** The municipality will, upon detecting that the B-BBEE status level of contribution has been claimed or obtained by a tenderer on a fraudulent basis or any of the conditions of a contract awarded to such tenderer or contractor have not been fulfilled, act against such tenderer or person awarded the ensuing contract.
  - (ii)** The municipality may, in addition to any other remedy it may have against the person contemplated in subparagraph (i) above-
    - (a)** disqualify the person concerned from participating in any future tender process with the municipality;
    - (b)** recover all costs, losses or damages it has incurred or suffered as a result of that person's conduct;
    - (c)** cancel the relevant contract and claim any damages which it has suffered as a result of having to make less favourable arrangements due to such cancellation;
  - (iii)** The municipality may restrict a tenderer or contractor, its shareholders and directors, or only the shareholders and directors, as the case may be, who acted on a fraudulent basis in connection with a tender, from obtaining business from the municipality for a period not exceeding 10 years, provided that, before exercising this right, the municipality shall give the persons or parties concerned an opportunity to make representations and be heard in defence of such contemplated action; and
  - (iv)** The municipality may refer any fraudulent action on the part of a tenderer or contractor or any party aforesaid to the South African Police Services with a view to criminal prosecution.
- (i)** Where a tenderer or contractor is restricted in terms of subparagraph (h)(iii) above, the accounting officer shall forward the relevant details to National Treasury for inclusion in the Central Database of Restricted Suppliers.



### **30. Procurement from tertiary institutions**

- (a)** Where the municipality is in need of a service provided by only tertiary institutions, such services must be procured through a tendering process with the identified tertiary institutions.
- (b)** Tertiary institutions referred to in subparagraph (a) will be required to submit their B-BBEE status in terms of the specialized scorecard contained in the B-BBEE Codes of Good Practice.
- (c)** Should the municipality require a service that can be provided by one or more tertiary institutions or public entities and enterprises from the private sector, the appointment of a contractor will be done by means of a tendering process.
- (d)** Public entities must be required to submit their B-BBEE status in terms of the specialized scorecard contained in the B-BBEE Codes of Good Practice.
- (e)** For purposes of this paragraph, a tendering process includes a written offer in a prescribed or stipulated form in response to an invitation by the municipality for the provision of services, works or goods, through price quotations, advertised competitive tendering processes or proposals.

### **31. Re-invitation of tenders**

The accounting officer must re-invite tenders cancelled in terms of paragraphs 29(3.3) and 29(4.3) and must, in the new tender documents, stipulate the correct preference point system to be applied.

### **32. Bid evaluation committees**

- (1)** A bid evaluation committee must, as far as possible, be composed of-
  - (a)** officials from departments requiring the goods or services; and
  - (b)** at least one supply chain management practitioner of the municipality.
- (2)** A bid evaluation committee must -
  - (a)** evaluate bids in accordance with the relevant bid specification, inclusive of unconditional discounts, sub-contracting and this policy; and
  - (b)** evaluate each bidder's ability to execute the contract provided that, where bids are invited on the basis of functionality as a criterion, they must be evaluated in the following two stages:
    - (i) First stage - evaluation of functionality**
      - (a)** bids must be evaluated in terms of the evaluation criteria embodied in the bid specification. The amendment of evaluation criteria, weights, applicable values and/or the minimum qualifying score for functionality after the closure of bids is not allowed as this may jeopardize the fairness of the

process;

- (b) a bid will be considered further if it achieves the prescribed minimum qualifying score for functionality;
- (c) bids that fail to achieve the minimum qualifying score for functionality must be disqualified;
- (d) score sheets should be prepared and provided to panel members to evaluate the bids;
- (e) a score sheet should contain all the criteria and the weight for each criterion as well as the values to be applied for evaluation as indicated in the bid specification;
- (f) each panel member should, after thorough evaluation, independently award his own value to each individual criterion;
- (g) score sheets should be signed by panel members and if necessary, a written motivation may be requested from panel members where vast discrepancies in the values awarded for each criterion exist -

provided that if the minimum qualifying score for functionality is indicated as a percentage in the bid specification, the percentage scored for functionality may be calculated as follows:

- (h) the value awarded for each criterion should be multiplied by the weight for the relevant criterion to obtain the score for the various criteria;
- (i) the scores for each criterion should be added to obtain the total score; and
- (j) the following formula should be used to convert the total score to percentage for functionality:

$$Ps = \frac{So}{Ms} \times 100$$

Where:

Ps = percentage scored for functionality by bid under consideration

So = total score of bid under consideration

Ms = maximum possible score

- (k) the percentage of each panel member should be added and divided by the number of panel members to establish the average percentage obtained by each bidder for functionality.

**(ii) Second stage - Evaluation in terms of the 80/20 or 90/10 preference point systems**

Only bids that achieve the minimum qualifying score / percentage for functionality must be evaluated further in accordance with the bid specification.

**(c) evaluate bids based on a stipulated minimum threshold for local production and content as required in the relevant bid specification in the following two stages:**

**(i) First stage – Evaluation in terms of the stipulated minimum threshold for local production and content**

- (a)** bids must be evaluated in terms of the evaluation criteria stipulated in the bid specification. The amendment of the stipulated minimum threshold for local production and content after the closure of bids is not allowed as this may jeopardize the fairness of the process;
- (b)** a bid must be disqualified if:
  - the bidder fails to achieve the stipulated minimum threshold for local production and content; and
  - the Declaration Certificate for Local Content (Form MBD 6.2) is not submitted as part of the bid;
- (c)** calculate the local content (LC) as a percentage of the bid price in accordance with the SABS approved technical specification number SATS 1286: 201x;
- (d)** verify the accuracy of the rates of exchange quoted by the bidder in paragraph 4.1 of the Declaration Certificate for Local Content (Form MBD 6.2)

**(ii) Second stage - Evaluation in terms of the 80/20 or 90/10 preference point systems**

- (e)** only bids that achieve the minimum stipulated threshold for local production and content must be evaluated further in accordance with the relevant preference point system referred to in the bid specification.
  - (f)** where appropriate, prices may be negotiated only with short listed or preferred bidders. Such negotiations must, however, not prejudice any other bidders.
- (d)** check in respect of the recommended bidder whether or not such bidder's municipal rates and taxes and municipal service charges are not in arrears;
- (e)** verify the status of recommended bidders (including their directors(s), owners(s) or trustee(s)) by checking the Data Base of Restricted Suppliers

maintained by National Treasury in order to ensure that no recommended bidder or any of its directors/owners/trustees are listed as companies or persons prohibited from doing business with the public sector.

- (f) submit to the adjudication committee a report and recommendations regarding the award of the bid or any other related matter provided that:
  - (i) a contract must be awarded to the bidder who scored the highest total number of points in terms of the preference points systems referred to in paragraphs 29(3.3) and 29(4.3) as may be applicable; and
  - (ii) in exceptional circumstances and as provided in paragraph 29(7.2) of this policy, a contract may be awarded to a bidder that did not score the highest number of points provided that the reasons for such a recommendation must be recorded for audit purposes and be defensible in a court of law.

### **33. Bid adjudication committees**

- (1) A bid adjudication committee must consist of at least four senior managers of the municipality which must include -
  - (a) the chief financial officer or, if the chief financial officer is not available, another manager in the budget and treasury office reporting directly to the chief financial officer and designated by the chief financial officer; and
  - (b) at least one senior supply chain management practitioner who is an official of the municipality; and
  - (c) a technical expert in the relevant field who is an official of the municipality if the municipality has such an expert.
- (2) The accounting officer must appoint the chairperson of the committee who shall preferably be the chief financial officer. If the chairperson is absent from a meeting, the members of the committee who are present must elect one of them to preside at the meeting and such election must be recorded in the minutes of the meeting concerned.
- (3) Only with the consent of the accounting officer and upon request by the bid adjudication committee, a member of a bid specification, bid evaluation committee and/or an advisor or person assisting these committees may be a member of a bid adjudication committee for the purpose of providing clarity and an explanation of difficult technical aspects relating to the bid being adjudicated.
- (4) A bid adjudication committee must -
  - (a) consider the report and recommendations of the bid evaluation committee submitted in terms of paragraph 32; and
  - (b) either -
    - (i) depending on its delegations, make a final award or a recommendation to the accounting officer to make the final award; or
    - (ii) make another recommendation to the accounting officer on how to

proceed with the relevant procurement.

- (5) If the bid adjudication committee decides to award a bid other than the one recommended by the bid evaluation committee, the bid adjudication committee must prior to awarding the bid -
  - (a) check in respect of the preferred bidder whether that bidder's municipal rates and taxes and municipal service charges are not in arrears; and
  - (b) notify the accounting officer.
- (6) The accounting officer may -
  - (a) after due consideration of the reasons for the deviation, ratify or reject the decision of the bid adjudication committee referred to in subparagraph 5(a); and
  - (b) if the decision of the bid adjudication committee is rejected, refer the decision of the adjudication committee back to that committee for reconsideration.
- (7) The accounting officer may, at any stage of a bidding process, refer any recommendation made by the evaluation committee or the adjudication committee back to that committee for reconsideration of the recommendation.
- (8) If a tender other than the one recommended in the normal course of implementing this policy is approved, the accounting officer must, in writing and within 10 working days, notify the Auditor-General and the National and Provincial Treasuries of the reasons for deviating from such recommendation.
- (9) Subparagraph 8 does not apply if a different tender was approved in order to rectify an irregularity.

#### **34. Procurement of banking services**

- (1) A contract for banking services -
  - (a) must be procured through competitive bids;
  - (b) must be consistent with section 7 or 85 of the Act; and
  - (c) may not be for a period of more than five years at a time.
- (2) The process for procuring a contract for banking services must commence at least nine months before the end of an existing contract.
- (3) The closure date for the submission of bids may not be less than 60 days from the date on which the advertisement is placed in a newspaper in terms of paragraph 23 (1).
- (4) Bids must be restricted to banks registered in terms of the Banks Act, 1990 (Act No. 94 of 1990).

#### **35. Procurement of IT related goods or services**

- (1) The accounting officer may request the State Information Technology Agency (SITA)

to assist with the acquisition of IT related goods or services through a competitive bidding process.

- (2) Both parties must enter into a written agreement to regulate the services rendered by, and the payments to be made to, SITA.
- (3) The accounting officer must notify SITA together with a motivation of the IT needs if -
  - (a) the transaction value of IT related goods or services required in any financial year will exceed R50 million (VAT included); or
  - (b) the transaction value of a contract to be procured whether for one or more years exceeds R50 million (VAT included).
- (4) If SITA comments on the submission and the municipality does not agree with such comments, the comments and the reasons for rejecting or not following such comments must be submitted to the council, the National and Provincial Treasuries and the Auditor-General.

**36. Procurement of goods and services under contracts secured by other organs of state**

- (1) The accounting officer may procure goods or services under a contract secured by another organ of state, but only if -
  - (a) the contract has been secured by that other organ of state by means of a competitive bidding process applicable to that organ of state;
  - (b) there is no reason to believe that such contract was not validly procured;
  - (c) there are demonstrable discounts or benefits to do so; and
  - (d) that other organ of state and the provider have consented to such procurement in writing.
- (2) Subparagraphs (1) (c) and (d) do not apply if -
  - (a) a municipal entity procures goods or services through a contract secured by its parent municipality; or
  - (b) a municipality procures goods or services through a contract secured by a municipal entity of which it is the parent municipality.

**37. Procurement of goods necessitating special safety arrangements**

- (1) The acquisition and storage of goods in bulk (other than water), which necessitate special safety arrangements, including gasses and fuel, should be avoided where ever possible.
- (2) Where the storage of goods in bulk is justified, such justification must be based on sound reasons, including the total cost of ownership, cost advantages and environmental impact and must be approved by the accounting officer.

### **38. Appointment of consultants**

- (1) The accounting officer may procure consulting services provided that any Treasury guidelines in respect of consulting services are taken into account when such procurements are made.
- (2) Consultancy services must be procured through competitive bids if -
  - (a) the value of the contract exceeds R200 000 (VAT included); or
  - (b) the duration period of the contract exceeds one year.
- (3) In addition to any requirements prescribed by this policy for competitive bids, bidders must furnish particulars of -
  - (a) all consultancy services provided to an organ of state in the last five years; and
  - (b) any similar consultancy services provided to an organ of state in the last five years.
- (4) The accounting officer must ensure that copyright in any document produced, and the patent rights or ownership in any plant, machinery, thing, system or process designed or devised by a consultant in the course of the consultancy service is vested in the municipality.

### **39. Deviation from, and ratification of minor breaches of, procurement processes**

- (1) The accounting officer may -
  - (a) dispense with the official procurement processes established by this policy and procure any required goods or services through any convenient process, which may include direct negotiations, but only -
    - (i) in an emergency;
    - (ii) if such goods or services are produced or available from a single provider only;
    - (iii) for the acquisition of special works of art or historical objects where specifications are difficult to compile;
    - (iv) acquisition of animals for zoos and/or nature and game reserves; or
    - (v) in any other exceptional case where it is impractical or impossible to follow the official procurement processes; and
  - (b) ratify any minor breaches of the procurement processes by an official or committee acting in terms of delegated powers or duties which are purely of a technical nature.
- (2) The accounting officer must record the reasons for any deviations in terms of subparagraphs (1) (a) and (b) of this policy and report them to the next meeting of the

council and also include such reasons as a note to the annual financial statements.

- (3) Subparagraph (2) does not apply to the procurement of goods and services contemplated in paragraph 11(2) of this policy.

#### **40. Unsolicited bids**

- (1) An unsolicited bid is a bid that is submitted by a prospective supplier to the municipality without any procurement requirement first having been identified and advertised. This situation arises when a supplier identifies an opportunity to render services or supply products not ordinarily required by the municipality.
- (2) In accordance with section 113 of the Act, there is no obligation upon the municipality to consider unsolicited bids received outside a normal bidding process.
- (3) The accounting officer may decide in terms of section 113(2) of the Act to consider an unsolicited bid but only if -
  - (a) the product or service offered in terms of the bid is a demonstrably or proven unique innovative concept;
  - (b) the product or service will be exceptionally beneficial to the municipality or have exceptional cost advantages;
  - (c) the person who made the bid is the sole provider of the product or service concerned; and
  - (d) the reasons for not going through the normal bidding processes are found to be sound by the accounting officer.
- (4) If the accounting officer decides to consider an unsolicited bid that complies with subparagraph (3), his decision must be made public in accordance with section 21A of the Municipal Systems Act, together with -
  - (a) reasons as to why the bid should not be open to other competitors;
  - (b) an explanation of the potential benefits if the unsolicited bid were accepted; and
  - (c) an invitation to the public or other potential suppliers to submit their comments on the proposal within 30 days of the publication of the relevant notice.
- (5) The accounting officer must submit all written comments received pursuant to subparagraph (4), including any responses from the unsolicited bidder, to the National and Provincial Treasuries for comment.
- (6) Subject to subparagraphs (7) and (8) below, the adjudication committee must consider the unsolicited bid and may, depending on its delegations, award the bid or make a recommendation to the accounting officer.
- (7) A meeting of the adjudication committee to consider an unsolicited bid must be open to the public.
- (8) When considering the matter, the adjudication committee must take into account -



- (a) any comments submitted by the public; and
  - (b) any written comments and recommendations of the National and Provincial Treasuries.
- (9) If any recommendations of the National and Provincial Treasuries are rejected or not followed, the accounting officer must submit to the Auditor-General and the National and Provincial Treasuries the reasons for rejecting or not following those recommendations.
- (10) Such submission must be made within seven days after the decision on the award of the unsolicited bid is taken, but no contract committing the municipality to the bid may be entered into or signed within 30 days of the submission.
- (11) The processes to be followed by the municipality with regard to the acceptance or rejection of an unsolicited bid shall clearly be made known to the bidder who submits the unsolicited bid concerned.
- (12) The council shall exercise caution when interviewing a potential supplier or a person who may wish to offer services to the municipality in circumstance which may be tantamount to the submission of or negotiation with regard to an unsolicited bid and shall not do anything or cause anything to be done which may be contrary to this policy.

#### **41. Combating of abuse of supply chain management system**

- (1) The accounting officer must-
- (a) take all reasonable steps to prevent abuse of the supply chain management system;
  - (b) investigate any allegations against an official or other role player of fraud, corruption, favouritism, unfair or irregular practices or failure to comply with this policy, and when justified -
    - (i) take appropriate steps against such official or other role player; or
    - (ii) report any alleged criminal conduct to the South African Police Service;
  - (c) check the National Treasury's database prior to awarding any contract to ensure that no recommended bidder, or any of its directors, is listed as a person prohibited from doing business with the public sector;
  - (d) reject any bid from a bidder -
    - (i) if any municipal rates and taxes or municipal service charges owed by that bidder or any of its directors to the municipality, or to any other municipality or municipal entity, are in arrears for more than three months; or
    - (ii) who during the last five years has failed to perform satisfactorily on a previous contract with the municipality or any other organ of state after written notice was given to that bidder that performance was unsatisfactory;

- (e) reject a recommendation for the award of a contract if the recommended bidder, or any of its directors, has committed a corrupt or fraudulent act in competing for the particular contract;
- (f) cancel a contract awarded to a person if -
  - (i) such person committed any corrupt or fraudulent act during the bidding process or the execution of the contract; or
  - (ii) an official or other role player committed any corrupt or fraudulent act during the bidding process or the execution of the contract that benefited that person; and
- (g) Reject the bid of any bidder if that bidder or any of its directors -
  - (i) has abused the supply chain management system of the municipality or has committed any improper conduct in relation to such system;
  - (ii) has been convicted for fraud or corruption during the past five years;
  - (iii) has willfully neglected, reneged on or failed to comply with any government, municipal or other public sector contract during the past five years; or
  - (iv) has been listed in the Register for Tender Defaulters in terms of section 29 of the Prevention and Combating of Corrupt Activities Act (No 12 of 2004).
- (2) The accounting officer must inform the National and Provincial Treasuries in writing of any actions taken in terms of subparagraphs (1)(b)(ii), (e) or (f) above.

### **Part 3: Logistics, Disposal, Risk and Performance Management**

#### **42. Logistics management**

The accounting officer must establish and implement an effective system of logistics management, which must include -

- (a) the monitoring of spending patterns on types or classes of goods and services incorporating, where practical, the coding of items to ensure that each item has a unique number;
- (b) the setting of inventory levels that includes minimum and maximum levels and lead times wherever goods are placed in stock;
- (c) the placing of manual or electronic orders for all acquisitions other than those from petty cash;
- (d) before payment is approved, certification by the responsible officer that the goods and services are received or rendered on time and is in accordance with the order, the general conditions of contract and specifications where applicable and that the price charged is as quoted in terms of a contract;
- (e) appropriate standards of internal control and warehouse management to ensure that

goods placed in stores are secure and only used for the purpose for which they were purchased;

- (f) regular checking to ensure that all assets including official vehicles are properly managed, appropriately maintained and only used for official purposes; and
- (g) monitoring and review of the supply vendor performance to ensure compliance with specifications and contract conditions for particular goods or services.

#### **43. Disposal management**

- (1) In terms of section 14 of the Act, the municipality may not transfer ownership as a result of sale or other transaction or otherwise permanently dispose of a capital asset needed to provide the minimum level of basic municipal services.
- (2) A municipality may transfer ownership or otherwise dispose of capital asset other than one contemplated in subsection (1), but only after the council, in a meeting open to the public-
  - (a) has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services; and
  - (b) has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.
- (3) Assets may be disposed of by -
  - (i) transferring the asset to another organ of state in terms of a provision of the Act enabling the transfer of assets;
  - (ii) transferring the asset to another organ of state at market related value or, when appropriate, free of charge;
  - (iii) selling the asset; or
  - (iv) destroying the asset.
- (4) The accounting officer must ensure that -
  - (a) when immovable property is sold by means of a competitive bidding process, the highest price offered shall be accepted, provided such price is equal to or higher than the market related price for the relevant immovable property;
  - (b) in other cases, only at a market related price except when the public interest or the plight of the poor demands otherwise in which event the sale price shall be determined in accordance with the applicable land disposal or indigent policy adopted by the council;
  - (c) movable assets are sold either by way of written price quotations, a competitive bidding process or by public auction at the highest offered price, provided such price is market related;
  - (d) firearms are not sold or donated to any person or institution within or outside the Republic unless approved by the National Conventional Arms Control Committee;

- (e) immovable property is let at market related rentals except when the public interest or the plight of the poor demands otherwise in which event the rental shall be determined in accordance with the applicable land disposal or indigent support policy adopted by the council;
  - (f) all fees, charges, rates, tariffs, scales of fees or other charges relating to the letting of immovable property are annually reviewed;
  - (g) where assets are traded in for other assets, the highest possible trade-in price is negotiated; and
  - (h) in the case of the free disposal of computer equipment, the provincial department of education is first approached to indicate, within 30 days, whether any of the local schools are interested in the equipment.
- (5) This paragraph must be read with and applied in conjunction with the Municipal Asset Transfer Regulations contained in Government Notice R. 878 of 22 August 2008 and the associated policies adopted by the council. In the event of conflict, the provisions of the aforesaid Regulations shall be applied.

#### **44. Risk management**

- (1) The accounting officer must establish and implement an effective system of risk management for the identification, consideration and avoidance of potential risks in the supply chain management system.
- (2) Risk management must include -
  - (a) the identification of risks on a case-by-case basis;
  - (b) the allocation of risks to the party best suited to manage such risks;
  - (c) acceptance of the cost of the risk where the cost of transferring the risk is greater than that of retaining it;
  - (d) the management of risks in a pro-active manner and the provision of adequate cover for residual risks; and
  - (e) the assignment of relative risks to the contracting parties through clear and unambiguous contract documentation.

#### **45. Performance management**

The accounting officer must establish and implement an internal monitoring system in order to determine, on the basis of a retrospective analysis, whether the authorized supply chain management processes were followed and whether the objectives of this policy were achieved.

### **Part 4: Other matters**

#### **46. Prohibition on awards to persons whose tax matters are not in order**

- (1) No award above R15 000 may be made in terms of this policy to a person whose tax

matters have not been declared by the South African Revenue Service to be in order.

- (2) Before making an award to a person, the accounting officer must first check with SARS whether that person's tax matters are in order.
- (3) If SARS does not respond within 7 days of request for confirmation in terms of subparagraph (2), such person's tax matters may for purposes of subparagraph (1) be presumed to be in order.

#### **47. Prohibition on awards to persons in the service of the state**

Irrespective of the procurement process followed, no award may be made to a person in terms of this policy -

- (a) who is in the service of the state;
- (b) if that person is not a natural person, of which any director, manager, principal shareholder or stakeholder is a person in the service of the state; or
- (c) who is an advisor or consultant contracted with the municipality.

#### **48. Awards to close family members of persons in the service of the state**

The accounting officer must ensure that the notes to the annual financial statements disclose particulars of any award of more than R2 000 to a person who is a spouse, child or parent of a person in the service of the state, or has been in the service of the state in the previous twelve months, including -

- (a) the name of that person;
- (b) the capacity in which that person is in the service of the state; and
- (c) the amount of the award.

#### **49. Ethical standards**

- (1) The code of ethical standards annexed to this policy as Annexure A shall apply to all officials and other role players in the supply chain management system of the municipality in order to promote -
  - (a) mutual trust and respect; and
  - (b) an environment where business can be conducted with integrity and in a fair and reasonable manner.
- (2) A breach of the aforesaid code of ethics must be dealt with as follows -
  - (a) in the case of an employee, in terms of the disciplinary procedures of the municipality envisaged in section 67(1)(h) of the Municipal Systems Act;
  - (b) in the case a role player who is not an employee, through other appropriate means with due regard to the severity of the breach;
  - (c) in all cases, financial misconduct must be dealt with in terms of chapter 15 of the Act.

**50. Inducements, rewards, gifts and favours to municipalities, officials and other role players**

- (1) No person who is a provider or prospective provider of goods or services or a recipient or prospective recipient of goods disposed of or to be disposed of may either directly or through a representative or intermediary promise, offer or grant -
- (a) any inducement or reward to the municipality for or in connection with the award of a contract; or
  - (b) any reward, gift, favour or hospitality to -
    - (i) any official; or
    - (ii) any other role player involved in the implementation of this policy.
- (2) The accounting officer must promptly report any alleged contravention of subparagraph 1 to the National Treasury for considering whether the offending person, and any representative or intermediary through which such person is alleged to have acted, should be listed in the National Treasury's database of persons prohibited from doing business with the public sector.
- (3) Subparagraph (1) does not apply to gifts less than R350 in value.

**51. Sponsorships**

The accounting officer must promptly disclose to the National and Eastern Cape Provincial Treasury any sponsorship promised, offered or granted, whether directly or through a representative or intermediary by any person who is -

- (a) a provider or prospective provider of goods or services to the municipality; or
- (b) a recipient or prospective recipient of goods disposed of or to be disposed of by the municipality.

**52. Objections and complaints**

Persons aggrieved by decisions or actions taken in the implementation of the supply chain management system, may lodge with the accounting officer, within 14 days of the decision or action, a written objection or complaint against the decision or action concerned.

**53. Resolution of disputes, objections, complaints and queries**

- (1) The accounting officer must appoint an independent and impartial person, not directly involved in the supply chain management processes -
- (a) to assist in the resolution of disputes between the municipality and other persons regarding -
    - (i) any decisions or actions taken in the implementation of the supply chain management system; or
    - (ii) any matter arising from a contract awarded in the course of the supply

chain management system; or

- (b) to deal with objections, complaints or queries regarding any such decisions or actions or any matters arising from such contract.
- (2) The accounting officer or another official designated by the accounting officer is responsible for assisting the appointed person to perform his or her functions effectively.
- (3) The person appointed must -
  - (a) strive to resolve promptly all disputes, objections, complaints or queries received; and
  - (b) submit monthly reports to the accounting officer on all disputes, objections, complaints or queries received, attended to or resolved.
- (4) A dispute, objection, complaint or query may be referred to the Eastern Cape Provincial Treasury if -
  - (a) the dispute, objection, complaint or query is not resolved within 60 days of lodgment; or
  - (b) no response is forthcoming within 60 days of lodgment.
- (5) If the Eastern Cape Provincial Treasury does not or cannot resolve the matter, the dispute, objection, complaint or query concerned may be referred to the National Treasury for resolution.
- (6) This paragraph must not be read as affecting a person's rights to approach a competent court for such order as may be just and necessary in the circumstances at any time.

#### **54. Contracts providing for compensation based on turnover**

If a service provider acts on behalf of the municipality to provide any service or act as a collector of fees, service charges or taxes and the compensation payable to the service provider is fixed as an agreed percentage of turnover for the service or the amount collected, the contract between the service provider and the municipality must stipulate -

- (a) a cap on the compensation payable to the service provider; and
- (b) that such compensation must be performance based.

#### **55. Contract Management – issue of variation orders**

- (a) The accounting officer or nominee may, subject to subparagraphs (b) to (d) authorize the issue of variation orders in respect of contract specifications or conditions of contract in order to accommodate costs for additional work either unforeseen when contracts were awarded for infrastructure projects, essential or necessary additional work or in instances where factors beyond the control of an appointed contractor has led to or will lead to a delay in a contract completion date.

- (b) A variation order may only be issued after -
  - (i) the need for such order has been fully motivated by the responsible project manager and supported by the head of department concerned; and
  - (ii) the chief financial officer has certified that funds are available to cover the cost the required additional work.
- (c) A request for the issue of a variation order in an amount exceeding R200 000 shall first be referred to the Bid Adjudication Committee which considered the initial bid for approval provided that the accounting officer may constitute a new Bid Adjudication Committee for this purpose.
- (d) No request for a variation order may be approved in circumstance where new bids may be invited for the additional work concerned.
- (e) The line manager responsible for the implementation of a project undertaken either departmentally or through an appointed contractor must keep a proper record of all variation orders issued in respect of a project.
- (f) The original copy of an issued variation order must be filed with the original bid and contract documents;
- (g) The responsible line manager must, upon completion of additional work or the expiry of any extended contract period authorized by a variation order, certify that the terms and conditions of such variation order have been complied with.

#### **56. Application of policy to municipal entities**

- (a) The provisions of this policy generally do not apply to municipal entities.
- (b) The supply chain management system of a municipal entity shall be applied with due regard to the provisions of this policy and the Regulations and, in the event of conflict, the provisions of the Regulations shall enjoy preference.

#### **57. Fronting**

- (a) For purposes of this paragraph, "fronting" shall include the under-mentioned acts on the part of a tenderer or any person or party associated with a tenderer:
  - (i) **Window-dressing:** This includes cases in which black people are appointed or introduced to an enterprise on the basis of tokenism and may subsequently be discouraged or inhibited from substantially participating in the core activities of the enterprise concerned and/or be discouraged or inhibited from substantially participating in the declared areas and/or levels of their participation;
  - (ii) **Benefit Diversion:** This includes initiatives where the economic benefits received by an organization for having B-BBEE Status do not flow to black people in the ratio specified by law;



(iii) **Opportunistic Intermediaries:** This includes enterprises that have concluded agreements with other enterprises in order to leverage the opportunistic intermediary's favourable B-BBEE status in circumstances where the agreement involves:

- (a) Significant limitations or restrictions on the identity of the opportunistic intermediary's suppliers, service providers, clients or customers;
- (b) The maintenance of their business operations in a context reasonably considered improbable having regard to resources; and
- (c) Terms and conditions that are not negotiated at arms-length on a fair and reasonable basis.

(b) Where the accounting officer detects fronting, he must act against a tenderer concerned in terms of paragraph 29(8.4) and, in addition, report such fronting to the Department of Trade and Industry.

#### **58. Commencement**

This policy takes effect on the date of its adoption by the council.

**SARAH BAARTMAN MUNICIPALITY**

**CODE OF CONDUCT FOR SUPPLY CHAIN MANAGEMENT PRACTITIONERS AND  
OTHER ROLE PLAYERS**

The purpose of this Code of Conduct is to promote mutual trust and respect and an environment where business can be conducted with integrity and in a fair and reasonable manner.

**1. General Principles**

The municipality commits itself to a policy of fair dealing and integrity in the conducting of its business. Officials and other role players involved in supply chain management (SCM) are in a position of trust which implies a duty to act in the public interest. Officials and other role players should not perform their duties to unlawfully gain any form of compensation, payment or gratuity from any person, or provider / contractor either for themselves, their family, their friends and business associates.

Officials and other role players involved in SCM should ensure that they perform their duties efficiently, effectively and with integrity, in accordance with the relevant legislation, policies and guidelines. They should ensure that public resources are administered responsibly.

Officials and other role players involved in SCM should be fair and impartial in the performance of their functions. They should, at no time, afford any undue preferential treatment to any group or individual or unfairly discriminate against any group or individual, they should also not abuse the power and authority vested in them.

**2. Conflict of interest**

An official or other role player involved with supply chain management -

- (a) must treat all providers and potential providers equitably and fairly;
- (b) may not use his or her position for private gain or to improperly benefit another person;
- (c) may not accept any reward, gift, favour, hospitality or other benefit directly or indirectly, including to any close family member, partner or associate of that person, of a value more than R350;
- (d) must declare to the accounting officer details of any reward, gift, favour, hospitality or other benefit promised, offered or granted to that person or to any close family member, partner or associate of that person;
- (e) must declare to the accounting officer details of any private or business interest which that person, or any close family member, partner or associate, may have in any proposed procurement or disposal process, or in any award of a contract by the municipality;
- (f) must immediately withdraw from participating in any manner whatsoever in a procurement or disposal process or in the award of a contract in which that person, or any close family member, partner or associate, has any private or business interest;

- (g) must declare any business, commercial and financial interests or activities undertaken for financial gain that may raise a possible conflict of interest;
- (h) should not place him/herself under any financial or other obligation to outside individuals or organizations that might seek to influence them in the performance of their official duties; and
- (i) should not take improper advantage of their previous office after leaving their official position.

### **3. Accountability**

- 3.1 Practitioners are accountable for their decisions and actions to the public.
- 3.2 Practitioners should use public property scrupulously.
- 3.3 Only accounting officers or their delegates have the authority to commit the municipality to any transaction for the procurement of goods and / or services.
- 3.4 All transactions conducted by a practitioner should be recorded and accounted for in an appropriate accounting system. Practitioners should not make any false or misleading entries into such a system for any reason whatsoever.
- 3.5 Practitioners must assist the accounting officer in combating fraud, corruption, favoritism and unfair and irregular practices in the supply chain management system.
- 3.6 Practitioners must report to the accounting officer any alleged irregular conduct in the supply chain management system which that person may become aware of, including but not limited to -
  - (i) any alleged fraud, corruption, favoritism or unfair conduct;
  - (ii) any alleged contravention of the policy on inducements, rewards, gifts and favours to municipalities or municipal entities, officials or other role players; and
  - (iii) any alleged breach of this code of conduct.
- 3.7 Any declarations made must be recorded in a register which the accounting officer must keep for this purpose. Any declarations made by the accounting officer must be made to the mayor who must ensure that such declaration is recorded in the register.

### **4. Openness**

Practitioners should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only if it is in the public interest to do so.

### **5. Confidentiality**

- 5.1 Any information that is the property of the municipality or its providers should be protected at all times. No information regarding any bid/contract/bidder/contractor may be revealed if such an action will infringe on the relevant bidder's/contractors personal rights.

- 5.2** Matters of confidential nature in the possession of officials and other role players involved in SCM should be kept confidential unless legislation, the performance of duty or the provisions of law requires otherwise. Such restrictions also apply to officials and other role players involved in SCM after separation from service.

## **6. Bid Specification / Evaluation / Adjudication Committees**

- 6.1** Bid specification, evaluation and adjudication committees should implement supply chain management on behalf of the municipality in an honest, fair, impartial, transparent, cost-effective and accountable manner.
- 6.2** Bid evaluation / adjudication committees should be familiar with and adhere to the prescribed legislation, directives and procedures in respect of supply chain management in order to perform effectively and efficiently.
- 6.3** All members of bid adjudication committees should be cleared by the accounting officer at the level of "CONFIDENTIAL" and should be required to declare their financial interest annually.
- 6.4** No person should-
- 6.4.1** interfere with the supply chain management system of the municipality; or
  - 6.4.2** Amend or tamper with any price quotation / bid after its submission.

## **7. Combative Practices**

Combative practices are unethical and illegal and should be avoided at all cost. They include but are not limited to:

- (i)** suggestions to fictitious lower quotations;
- (ii)** reference to non-existent competition;
- (iii)** exploiting errors in price quotations / bids;
- (iv)** soliciting price quotations / bids from bidders / contractors whose names appear on the Register for Tender Defaulters.

**ANNEXURE B****SCHEDULE TO SMALL BUSINESSES ACT NO. 102 OF 1996**

| Column 1   | Column 2                               | Column 3   | Column 4                                 | Column 5  |
|--|--|--|--|---|
| Sector or sub-sector in accordance with the Standard Industrial Classification | Size of class                          | The total full-time equivalent of paid employees | Total turnover                           | Total gross asset value (fixed property excluded) |
| Agriculture  | Medium<br>Small<br>Very small<br>Micro | 100<br>50<br>10<br>5                             | R 5 m<br>R 3 m<br>R 0.50 m<br>R 0.20 m   | R 5 m<br>R 3 m<br>R 0.50 m<br>R 0.10 m            |
| Mining and Quarrying   | Medium<br>Small<br>Very small<br>Micro | 200<br>50<br>20<br>5                             | R 39 m<br>R 10 m<br>R 4 m<br>R 0.20 m    | R 23 m<br>R 6 m<br>R 2 m<br>R 0.10 m              |
| Manufacturing  | Medium<br>Small<br>Very small<br>Micro | 200<br>50<br>20<br>5                             | R 51 m<br>R 13 m<br>R 5 m<br>R 0.20 m    | R 19 m<br>R 5 m<br>R 2 m<br>R 0.10 m              |
| Electricity, Gas and Water   | Medium<br>Small<br>Very small<br>Micro | 200<br>50<br>20<br>5                             | R 51 m<br>R 13 m<br>R 5.10 m<br>R 0.20 m | R 19 m<br>R 5 m<br>R 1.90 m<br>R 0.10 m           |
| Construction   | Medium<br>Small<br>Very small<br>Micro | 200<br>50<br>20<br>5                             | R 26 m<br>R 6 m<br>R 3 m<br>R 0.20 m     | R 5 m<br>R 1 m<br>R 0.50 m<br>R 0.10 m            |
| Retail and Motor Trade and Repair Services                                     | Medium<br>Small<br>Very small<br>Micro | 200<br>50<br>20<br>5                             | R 39 m<br>R 19 m<br>R 4 m<br>R 0.20 m    | R 6 m<br>R 3 m<br>R 0.60 m<br>R 0.10 m            |
| Wholesale Trade, Commercial Agents and Allied Services                         | Medium<br>Small<br>Very small<br>Micro | 200<br>50<br>20<br>5                             | R 64 m<br>R 32 m<br>R 6 m<br>R 0.20 m    | R 10 m<br>R 5 m<br>R 0.60 m<br>R 0.10 m           |
| Catering, Accommodation and other Trade  | Medium<br>Small<br>Very small<br>Micro | 200<br>50<br>20<br>5                             | R 13 m<br>R 6 m<br>R 5.10 m<br>R 0.20 m  | R 3 m<br>R 1 m<br>R 1.90 m<br>R 0.10 m            |
| Transport, Storage and Communications  | Medium<br>Small<br>Very small<br>Micro | 200<br>50<br>20<br>5                             | R 26 m<br>R 13 m<br>R 3 m<br>R 0.20 m    | R 6 m<br>R 3 m<br>R 0.60 m<br>R 0.10 m            |
| Finance and Business Services  | Medium<br>Small<br>Very small<br>Micro | 200<br>50<br>20<br>5                             | R 26 m<br>R 13 m<br>R 3 m<br>R 0.20 m    | R 5 m<br>R 3 m<br>R 0.50 m<br>R 0.10 m            |
| Community, Social and Personal Services  | Medium<br>Small<br>Very small<br>Micro | 200<br>50<br>20<br>5                             |  |   |



**Sarah Baartman**

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# Virement Policy

May 2017

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Annexure "A" Virement Approval form

## 1. Definitions

1. **“Accounting officer”** The municipal manager of a municipality is the accounting officer of the municipality in terms of section 60 of the MFMA
2. **“Approved budget”** means an annual budget approved by a municipal council.
3. **“Budget-related policy”** means a policy of a municipality affecting or affected by the annual budget of the municipality
4. **“Chief financial officer”** means a person designated in terms of the MFMA who performs such budgeting, and other duties as may in terms of section 79 of the MFMA be delegated by the accounting officer to the chief financial officer.
5. **“Capital Budget”** This is the estimated amount for capital items in a given fiscal period. Capital items are fixed assets such as facilities and equipment, the cost of which is normally written off over a number of fiscal periods
6. **“Council”** means the council of a municipality referred to in section 18 of the Municipal Structures Act.
7. **“Financial year”** means a 12-month year ending on 30 June.
8. **“Line Item”** an appropriation that is itemized on a separate line in a budget adopted with the idea of greater control over expenditures **[See annexure “D” for current item structure]**
9. **“Operating Budget”** The municipality's financial plan, which outlines proposed expenditures for the coming financial year and estimates the revenues used to finance them.
10. **“Ring Fenced”** an exclusive combination of line items grouped for specific purposes for instance salaries and wages.
11. **“Service delivery and budget implementation plan”** means a detailed plan approved by the mayor of a municipality in terms of section 53(1) (c)



- (ii) for implementing the municipality's delivery of municipal services and its annual budget.
12. **"Virement"** is the process of transferring an approved budget allocation from one operating line item to another, with the approval of the relevant Manager and the Accounting Officer. To enable budget managers to amend budgets in the light of experience or to reflect anticipated changes.
13. **"Vote"** means one of the main segments into which a budget of a municipality is divided for the appropriation of funds for the different departments or functional areas of the municipality; and which specifies the total amount that is appropriated for the purposes of the department or functional area concerned. **[See annexure "D" for current Vote structure]**

## **2. Abbreviations**

1. **CFO** – Chief Financial Officer
2. **IDP** – Integrated Development Plan
3. **MFMA** – Municipal Finance Management Act No. 56 of 2003
4. **SDBIP** - Service delivery and budget implementation plan
5. **CM** – Council Minute/'s

### **3. Objective**

To allow limited flexibility in the use of budgeted funds to enable management to act on occasions such as disasters, unforeseen expenditure or savings, etc. as they arise to accelerate service delivery in a financially responsible manner.

### **4. Virement Clarification**

Virement is the process of transferring budgeted funds from one line item number to another, with the approval of the relevant Manager and Municipal Manager, to enable budget managers to amend budgets in the light of experience or to reflect anticipated changes. (Section 28 (2) (c) MFMA)

### **5. Financial Responsibilities**

Strict budgetary control must be maintained throughout the financial year in order that potential overspends and / or income under-recovery within individual vote departments are identified at the earliest possible opportunity. (Section 100 MFMA) The Chief Financial Officer has a statutory duty to ensure that adequate policies and procedures are in place to ensure an effective system of financial control. The budget virement process is one of these controls. (Section 27(4) MFMA) It is the responsibility of each manager or head of a department or activity to which funds are allocated, to plan and conduct assigned operations so as not to expend more funds than budgeted. In addition, they have the responsibility to identify and report any irregular or fruitless and wasteful expenditure in terms of the MFMA sections 78 and 102.

## **6. Virement Restrictions**

- a. No funds may be viremented between line items within a vote without approval of the Municipal Manager.
- b. Virements may not exceed a maximum of 0.5% of the total approved operating expenditure budget
- c. A virement may not create new policy, significantly vary current policy, or alter the approved outcomes / outputs as approved in the IDP for the current or subsequent years. (section 19 and 21 MFMA)
- d. Virements resulting in adjustments to the approved SDBIP need to be submitted with an adjustments budget to the Council with altered outputs and measurements for approval. (MFMA Circular 13 page 3 paragraph 3)
- e. No virement may commit the Municipality to increase recurrent expenditure, which commits the Council's resources in the following financial year, without the prior approval of the Mayoral Committee.
- f. No virement may be made where it would result in over expenditure. (section 32 MFMA)
- g. Virements may not be made in respect of ring-fenced allocations.
- h. Budget may not be transferred from Support Service (interdepartmental) costs, Capital financing, Debt impairment, Interest charges, Depreciation, Contributions, Grant Expenditure and Income Foregone.
- i. Amounts may only be transferred from Salaries if approved by the Municipal Manager.
- j. Virements in capital budget allocations are not permitted.
- k. No virements are permitted in the first three months of the financial year without the express agreement of the Municipal Manager.
- l. Virement amounts may not be rolled over to subsequent years, or create expectations on following budgets.

- m. An approved virement does not give expenditure authority and all expenditure resulting from approved virements must still be subject to the procurement/supply chain management policy of Council as periodically reviewed.
- n. Virements may not be made between Expenditure and Income.
- o. Virements of conditional grant funds to purposes outside of that specified in the relevant conditional grant framework must not be permitted.

## **7. Virement Procedure**

- a. All virement proposals must be completed on the appropriate documentation and forwarded to the relevant Municipal Manager.
- b. All virements must be signed by the Vote holder (per department).
- c. A virement form must be completed for all Budget Transfers.
- d. Virements in excess of R 50,000 with a maximum as determined under section 6 (b) of this policy requires the approval of the Chief Financial Officer and Municipal Manager .
- e. Must include changes to the SDBIP.
- f. All documentation must be in order and approved before any expenditure can be committed or incurred.
- g. The Municipal Manager will report to the Executive Mayor on a quarterly basis on those virements that have taken place during that quarter.

STANDARD BANK BUILDING  
32 GOVAN MBEKI AVENUE  
PORT ELIZABETH, 6001  
TEL: 041 508 7111  
FAX: 041 508 7000  
www.cacadu.co.za

Annexure "A"

**Sarah Baartman**  
**DISTRICT MUNICIPALITY**  
*Province of the Eastern Cape*

Previously Cacadu District Municipality

**Virement Approval Form**

KINDLY EFFECT THE FOLLOWING CHANGES ON MY BUDGET:

| <u>VOTE</u> | <u>AMOUNT</u> |
|-------------|---------------|
| FROM.....   | (R.....)      |
| TO.....     | R.....        |

\* MOTIVATION \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

AUTHORISED BY HEAD OF DEPARTMENT: NAME: .....

DATE: .....

SIGNATURE: .....

APPROVED BY CHIEF FINANCIAL OFFICER: NAME: .....

DATE: .....

SIGNATURE: .....

APPROVED BY MUNICIPAL MANAGER: NAME: .....

DATE: .....

SIGNATURE: .....

\* Any changes required to the SDBIP must be fully detailed and a report must be submitted to the Executive Mayor

***Sources***

**Municipal Finance Management Act No. 56 Of 2003**

**MFMA Circular No.13 - Service Delivery and Budget Implementation Plan**

**MFMA Circular No. 51 – Municipal Budget Circular for the 2010/2011 MTREF**



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# **CREDIT CONTROL AND DEBT COLLECTION POLICY**

**May 2017**

## **CREDIT CONTROL AND DEBT COLLECTION POLICY**

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## **CREDIT CONTROL AND DEBT COLLECTION POLICY**

### **PART 1: OBJECTIVE: CONSTITUTIONAL OBLIGATIONS**

The council of the municipality, in adopting this policy on credit control and debt collection, recognizes its constitutional obligations to develop the local economy.

### **PART 2: ARRANGEMENTS FOR PAYMENT OF ARREAR ACCOUNTS**

Allowing defaulting accountholders to make arrangements for the payment of arrear accounts shall be at the discretion of the municipal manager.

Each defaulting accountholder shall be allowed a maximum period of 3 (three) months within which to pay an arrear account, together with the interest raised on such account, and it shall be a condition for the conclusion of any arrangement that the accountholder is bound to pay every current account in full and on time during the period over which such arrangement extends.

If an accountholder breaches any material term of an arrangement, the balance of the arrear account, together with the balance of interest raised on such account, shall immediately become due and payable to the municipality, and if the accountholder defaults on such payment, the municipal manager shall forthwith hand such account over for collection.

An accountholder who has breached an arrangement as set out above shall not be allowed to make any further arrangements for the payment of arrear accounts.

### **PART 3: QUERIES BY ACCOUNTHOLDERS**

In the event of an accountholder reasonably querying any item or items on the account, no action shall be taken against the accountholder provided the accountholder has paid by due date an amount equal to the monthly average monetary value of the three most recent unqueried accounts, as well as all unqueried balances on such account, and provided further such query is made in writing by the accountholder or is recorded in writing by the municipal manager on behalf of the accountholder on or before the due date for the payment of the relevant account.

### **PART 4: DISHONOURED AND OTHER UNACCEPTABLE CHEQUES**

If an accountholder tenders a cheque which is subsequently dishonoured by or is found to be unacceptable to the accountholder's bankers, the municipal manager shall – in addition to taking the steps contemplated in this policy against defaulting accountholders – charge such accountholder the penalty charge for unacceptable cheques, as determined by the banking institution from time to time..

### **PART 5: DELEGATION OF RESPONSIBILITIES BY MUNICIPAL MANAGER**

The municipal manager, including any person acting in such capacity, shall be responsible to the council for the implementation of this policy and its attendant by-laws but – without in so doing being divested of such responsibility – may delegate in writing all or any of the duties and responsibilities referred to in these by-laws to any other official or officials of the municipality, and may from time to time in writing amend or withdraw such delegation(s).

## **PART 6: ROLE OF MUNICIPAL MANAGER**

Section 100 of the Municipal Systems Act 2000 (see part 24 below) clearly assigns the legal responsibility for implementing the credit control and debt collection policies and by-laws to the municipal manager.

In practice, however, the municipal manager will inevitably delegate some or many of the responsibilities specifically assigned to this office in the by-laws, as it will be administratively impossible for the municipal manager to perform the numerous other functions of this office as well as attend to frequently recurring administrative responsibilities. However, such delegation does not absolve the municipal manager from final accountability in this regard, and the municipal manager will therefore have to ensure that a proper internal reporting structure is established and consistently implemented so that the day-to-day actions of and results from the credit control and debt collection programme are properly monitored and supervised.

## **PART 7: ROLE OF COUNCILLORS**

Section 99 of the Systems Act 2000 places the important legal responsibility on the executive mayor or executive committee, as the case may be, of monitoring and supervising the application of the present policy and the attendant by-laws, and of reporting to the council on the extent and success of credit control actions.

In order to maintain the credibility of the municipality in the implementation of the present policy and the attendant by-laws, it is essential that councillors should lead by example. Councillors, by adopting this policy, therefore pledge, not only their unqualified support for the policy, but their commitment to ensuring that their own accounts will at no stage fall into arrears.

## **PART 8: COLLECTION OF ARREARS**

Where a debtor's account is 30 days overdue a letter of demand are sent to the debtor requesting payment within 7 days of date of letter. Should there be no response, a final notice will be issued and a demand for payment of the outstanding amount within a period of 14 days failing the debtor will be handed over to attorneys for collection.

## **PART 9: INTEREST ON ARREARS AND OTHER PENALTY CHARGES**

Interest may be charged on all arrear accounts at the prevailing overdraft rate offered by the municipality's bankers plus 2 (two) percentage points. The charging of interest will be initiated upon the municipal manager's instruction and authorization.

If the municipality uses more than one banking institution it shall for purposes of determining the interest on arrear accounts apply the overdraft rate offered by the institution with which its primary bank account is placed. Interest shall be calculated on a daily basis. For purposes of determining arrear amounts, all amounts unpaid including interest previously raised and penalty charges, but excluding value added tax, shall be taken into account.

## **PART 10: UNCOLLECTABLE ARREARS**

The effective implementation of the present policy also implies a realistic review of the municipality's debtors' book at the conclusion of each financial year. The municipal manager shall as soon as possible after 30 June each year present to the council a report indicating the amount of the arrears which it is believed is uncollectable, together with the reasons for this conclusion.

The council shall then approve the write off of such arrears, if it is satisfied with the reasons provided.

#### **PART 11: PROVISION FOR DEBT IMPAIRMENT**

A provision for debt impairment is calculated at 30 June and is based on debtor amounts outstanding for greater than 90 days and where it is not certain whether the amounts are collectable.

#### **PART 12: BY-LAWS TO BE ADOPTED**

By-laws shall be adopted to give effect to the council's credit control and debt collection policy.

These by-laws deal severely with defaulters, and their application requires a considerable degree of commitment from the municipal manager and his or her administration, as well as from the municipality's political structures. For these by-laws to ensure the avoidance of financial misfortunes for the municipality, and to lead to sustained financial stability, their application will have to receive the constant attention of all the municipality's key role-players and decision makers. If these by-laws are not constantly and consistently applied, from month to month and from year to year, the municipality's political and administrative credibility will be severely impaired, and it may not be able to avert financial collapse in the long run.

The by-laws comply with the requirements of the Municipal Systems Act 2000 and the Municipal Finance Management Act 2003.

#### **PART 13: LEGAL REQUIREMENT**

It is essential for the protection of the municipality's interests that the provisions of particularly the Municipal Systems Act 2000, in so far as it provides additional debt collection mechanisms for municipalities, be diligently enforced. At the same time, both the council and the administration must note the obligations, which the municipality has towards the community in respect of customer care and relations.

The legal requirements are contained in the Municipal Systems Act (specifically Sections 95 to 103 and Section 118), and the Municipal Finance Management Act (specifically Section 64).



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# **REVENUE BY-LAWS**

**May 2017**



## **REVENUE BY-LAWS**

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## **REVENUE BY-LAWS**

### **PART I: GENERAL**

#### **SECTION 1: OBJECTIVE OF BY-LAWS**

- (a) These by-laws are formulated and gazetted to give proper effect to the local municipality's policies on:
- tariffs;
  - credit control and debt collection; and
- (b) These by-laws must be read in conjunction with the policies referred to, and within the applicable provisions of the following legislation:
- Local Government: Municipal Systems Act No.32 of 2000;
  - Local Government: Municipal Finance Management Act No.56 of 2003; and
- (c) The relevant sections of the legislation referred to above are appended to:
- Part 1 of the tariffs policy, and
  - Part 24 of the credit control and debt collection policy.
- (d) Copies of these policies, with the relevant annexures setting out the legal requirements and legal framework within which the by-laws must operate, appear on the municipality's website and are available free of charge on application to the Office of the Municipal Manager.

#### **SECTION 2: DEFINITIONS**

"Annual budget" shall mean the budget approved by the municipal council for any particular financial year, and shall include any adjustments to such budget.

"By-law" shall mean legislation passed by the council of the municipality, and which shall be binding on the municipality and on the persons and institutions to which it applies.

"Consumer price index" shall mean the CPIX as determined and gazetted from time to time by the South Bureau of Statistics.

"Councillor" shall mean a member of the council of the municipality.

"Financial year" shall mean the period starting from 1 July in any year and ending on 30 June on the following year.

"Integrated development plan" shall mean a plan formulated and approved as envisaged in Section 25 of the Municipal Systems Act 2000.

"Local community" or "community", in relation to the municipality, shall mean that body of persons comprising the residents of the municipality, the ratepayers of the municipality, any civic organizations and non-governmental, private sector or labour organizations or bodies involved in local affairs within the municipality, and visitors and other people residing outside the municipality who, because of their presence in the municipality, make use of services or facilities provided by the municipality.

"Market value" in relation to a property shall mean the value of the property as determined in accordance with Section 46 of the Property Rates Act 2004.

"Month" means one of twelve months of a calendar year.

"Municipal council" or "council" shall mean the municipal council as referred to in Section 157((1) of the Constitution.

"Municipal entity" shall mean ((a) a company, co-operative, trust, fund or any other corporate entity established in terms of any applicable national or provincial legislation, and which operates under the ownership control of one or more municipalities; or (b) a service utility.

"Municipal manager" shall mean the person appointed in terms of Section 82 of the Municipal Structures Act, 1998.

"Multiple purposes" in relation to a property, shall mean the use of a property for more than one purpose.

"Municipal tariff" shall mean a tariff for services which the municipality may set for the provision of a service to the local community, and may include a surcharge on such service. Tariffs for minor tariffs shall mean all tariffs, charges, fees, rentals or fines levied or imposed by the municipality in respect of services supplied.

"Person" shall include an organ of state, and an "organ of state" shall mean an organ of state as defined in Section 239 of the Constitution.

"Property" shall mean (a) immovable property registered in the name of a person, including in the case of a sectional title scheme a sectional title unit registered in the name of a person ;( b) a right registered against immovable property in the name of the person, but excluding a mortgage bond registered against the property; (c) a land tenure right registered in the name of a person or granted to a person in terms of legislation; and (d) public service infrastructure.



## **PART II: TARIFFS**

### **SECTION 1: MINOR TARIFFS**

- (a) All minor tariffs shall be standardized within the municipal region.
- (b) All minor tariffs shall be approved by the council in each annual budget, and shall, when deemed appropriate by the council, be subsidized by general revenues, particularly when the tariffs will prove uneconomical when charged to cover the cost of the service concerned, or when the cost cannot accurately be determined, or when the tariff is designed purely to regulate rather than finance the use of the particular service or amenity.
- (c) All minor tariffs over which the municipality has full control, and which are not directly related to the cost of a particular service, shall annually be adjusted at least in line with the prevailing consumer price index, unless there are compelling reasons why such adjustment should not be effected.
- (d) The following services shall be considered:
  - Property rentals
  - Land rentals
  - Sale of livestock or plants
  - Photocopies and data saving devises
  - Tender documents
  - Parking fees
  - Internal rentals
  - Access to information search fees
  - Certificate for acceptability – Environmental Health
- (e) Market-related rentals shall be levied for the lease of municipal properties unless otherwise specifically approved by Council.

### **PART III: CREDIT CONTROL AND DEBT COLLECTION**

#### **SECTION 1: OBJECTIVE: CONSTITUTIONAL OBLIGATIONS**

The council of the municipality, in adopting this policy on credit control and debt collection, recognizes its constitutional obligations to develop the local economy.

#### **SECTION 2: ARRANGEMENTS FOR PAYMENT OF ARREAR ACCOUNTS**

Allowing defaulting accountholders to make arrangements for the payment of arrear accounts shall be at the discretion of the municipal manager.

Each defaulting accountholder shall be allowed a maximum period of 3 (three) months within which to pay an arrear account, together with the interest raised on such account, and it shall be a condition for the conclusion of any arrangement that the accountholder is bound to pay every current account in full and on time during the period over which such arrangement extends.

If an accountholder breaches any material term of an arrangement, the balance of the arrear account, together with the balance of interest raised on such account, shall immediately become due and payable to the municipality, and if the accountholder defaults on such payment, the municipal manager shall forthwith hand such account over for collection.

An accountholder who has breached an arrangement as set out above shall not be allowed to make any further arrangements for the payment of arrear accounts.

#### **SECTION 3: QUERIES BY ACCOUNTHOLDERS**

In the event of an accountholder reasonably querying any item or items on the account, no action shall be taken against the accountholder provided the accountholder has paid by due date an amount equal to the monthly average monetary value of the three most recent unqueried accounts, as well as all unqueried balances on such account, and provided further such query is made in writing by the accountholder or is recorded in writing by the municipal manager on behalf of the accountholder on or before the due date for the payment of the relevant account.

#### **SECTION 4: DISHONOURED AND OTHER UNACCEPTABLE CHEQUES**

If an accountholder tenders a cheque which is subsequently dishonoured by or is found to be unacceptable to the accountholder's bankers, the municipal manager shall – in addition to taking the steps contemplated in this policy against defaulting accountholders – charge such accountholder the penalty charge for unacceptable cheques, as determined by the banking institution from time to time..

#### **SECTION 5: DELEGATION OF RESPONSIBILITIES BY MUNICIPAL MANAGER**

The municipal manager, including any person acting in such capacity, shall be responsible to the council for the implementation of this policy and its attendant by-laws but – without in so doing being divested of such responsibility – may delegate in writing all or any of the duties and responsibilities referred to in these by-laws to any other official or officials of the municipality, and may from time to time in writing amend or withdraw such delegation(s).

## **SECTION 6: ROLE OF MUNICIPAL MANAGER**

Section 100 of the Municipal Systems Act 2000 (see part 24 below) clearly assigns the legal responsibility for implementing the credit control and debt collection policies and by-laws to the municipal manager.

In practice, however, the municipal manager will inevitably delegate some or many of the responsibilities specifically assigned to this office in the by-laws, as it will be administratively impossible for the municipal manager to perform the numerous other functions of this office as well as attend to frequently recurring administrative responsibilities. However, such delegation does not absolve the municipal manager from final accountability in this regard, and the municipal manager will therefore have to ensure that a proper internal reporting structure is established and consistently implemented so that the day-to-day actions of and results from the credit control and debt collection programme are properly monitored and supervised.

## **SECTION 7: ROLE OF COUNCILLORS**

Section 99 of the Systems Act 2000 places the important legal responsibility on the executive mayor or executive committee, as the case may be, of monitoring and supervising the application of the present policy and the attendant by-laws, and of reporting to the council on the extent and success of credit control actions.

In order to maintain the credibility of the municipality in the implementation of the present policy and the attendant by-laws, it is essential that councillors should lead by example. Councillors, by adopting this policy, therefore pledge, not only their unqualified support for the policy, but their commitment to ensuring that their own accounts will at no stage fall into arrears.

## **SECTION 8: COLLECTION OF ARREAR ACCOUNTS**

Where a debtor's account is 30 days overdue a letter of demand are sent to the debtor requesting payment within 7 days of date of letter. Should there be no response a final notice will be issued and a demand for payment of the outstanding amount within a period of 14 days failing the debtor will be handed over to attorneys for collection.

## **SECTION 9: INTEREST ON ARREARS AND OTHER PENALTY CHARGES**

Interest shall be charged on all arrear accounts at the prevailing overdraft rate offered by the municipality's bankers plus 2 (two) percentage points.

If the municipality uses more than one banking institution it shall for purposes of determining the interest on arrear accounts apply the overdraft rate offered by the institution with which its primary bank account is placed.

Interest shall be calculated on a daily basis. For purposes of determining arrear amounts, all amounts unpaid including interest previously raised and penalty charges, but excluding value added tax, shall be taken into account.

## **SECTION 10: UNCOLLECTABLE ARREARS**

The effective implementation of the present policy also implies a realistic review of the municipality's debtors book at the conclusion of each financial year. The municipal manager shall as soon as possible after 30 June each year present to the council a report indicating the amount of the arrears which it is believed is uncollectable, together with the reasons for this conclusion.

The council shall then approve the write off of such arrears, if it is satisfied with the reasons provided.

## **SECTION 11: BY-LAWS TO BE ADOPTED**

By-laws shall be adopted to give effect to the council's credit control and debt collection policy.

These by-laws deal severely with defaulters, and their application requires a considerable degree of commitment from the municipal manager and his or her administration, as well as from the municipality's political structures. For these by-laws to ensure the avoidance of financial misfortunes for the municipality, and to lead to sustained financial stability, their application will have to receive the constant attention of all the municipality's key role-players and decision makers. If these by-laws are not constantly and consistently applied, from month to month and from year to year, the municipality's political and administrative credibility will be severely impaired, and it may not be able to avert financial collapse in the long run.

The by-laws comply with the requirements of the Municipal Systems Act 2000 and the Municipal Finance Management Act 2003.

## **SECTION 12: LEGAL REQUIREMENT**

It is essential for the protection of the municipality's interests that the provisions of particularly the Municipal Systems Act 2000, in so far as it provides additional debt collection mechanisms for municipalities, be diligently enforced. At the same time, both the council and the administration must note the obligations, which the municipality has towards the community in respect of customer care and relations.

The legal requirements are contained in the Municipal Systems Act (specifically Sections 95 to 103 and Section 118), and the Municipal Finance Management Act (specifically Section 64).



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# **TARIFF POLICY**

**May 2017**

## **TARIFF POLICY**

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## **TARRIFF POLICY**

### **PART 1: GENERAL INTRODUCTION AND OBJECTIVE**

As per the Municipal Systems Act nr 32 of 2000 (Section 74) the Council is required to adopt and implement a Tariff Policy.

It is a duty of the District Municipality to implement tariffs as approved by the Council. These tariffs must be reviewed and approved annually as part of the budget processes. The objective of setting these tariffs are to recover all or part of the costs incurred. The District Municipality only has minor tariffs.

### **PART 2: GENERAL PRINCIPLES**

All minor tariffs shall be standardized within the municipal region.

All minor tariffs shall be approved by the council in each annual budget, and shall, when deemed appropriate by the council, be subsidized by general revenues, particularly when the tariffs will prove uneconomical when charged to cover the cost of the service concerned, or when the cost cannot accurately be determined, or when the tariff is designed purely to regulate rather than finance the use of the particular service or amenity.

All minor tariffs over which the municipality has full control, and which are not directly related to the cost of a particular service, shall annually be adjusted at least in line with the prevailing consumer price index, unless there are compelling reasons why such adjustment should not be effected.

The following services shall be considered:

- Property rentals
- Land rentals
- Photocopies and data saving devises
- Tender documents
- Parking fees
- Internal rentals
- Access to information search fees
- Certificate for acceptability – Environmental Health

Market-related rentals shall be levied for the lease of municipal properties unless otherwise specifically approved by Council.



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**SUNDRY FINANCIAL POLICY  
DOCUMENTS**

**May 2017**



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## Sarah Baartman District Municipality

### 1. Glossary

|                     |   |
|---------------------|---|
| Conditional grant   | Grant received from government and public to which a condition as to the application of such a grant exists.  |
| Councillor          | A member of a municipal council.  |
| Council             | Council of Sarah Baartman District Municipality   |
| SBDM                | Sarah Baartman District Municipality  |
| Directive 4         | Transitional provisions for the adoption of standards of GRAP by medium and low capacity municipalities. Issued by the Accounting Standards Board, February 2008.   |
| Funds               | Statutory funds in terms of an Act.   |
| Fair value          | The best price obtainable by the seller, whilst simultaneously being the most advantageous price obtainable by a buyer.   |
| IAS                 | International Accounting Standards  |
| MFMA                | Municipal Finance Management Act no 56, 2003  |
| The municipality    | Sarah Baartman District Municipality  |
| Official            | <ul style="list-style-type: none"> <li>• an employee of a municipality or municipal entity;</li> <li>• a person seconded to a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity; or</li> <li>• a person contracted by a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity otherwise than as an employee.</li> </ul> |
| Obligating event    | An event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.   |
| PPE                 | Property, plant and equipment   |
| Reserves            | Reserves allowed in terms of a standard of GRAP.  |
| Ring fencing        | Enclose and reserve the portion ring fenced of the accumulated surplus account exclusively for the purpose it was ring fenced.  |
| Unconditional grant | Grant received from government or public with no conditions as to the application of such a grant.  |

## **2. Long Term Receivables**

### **2.1 Definition**

Loans and obligations with a maturity of longer than one year accompanied by interest and redemption payments.

### **2.2 MFMA Requirements**

- According to the MFMA:

Section 164(1) No municipality or municipal entity may—

(c) make loans to—

- (i) councillors or officials of the municipality;
- (ii) directors or officials of the entity; or
- (iii) members of the public.

Section 164(2) If a municipality or municipal entity on the date on which this section takes effect is engaged in any activity prohibited by subsection (1) (a) or (b) and which is otherwise lawful, the municipality or entity must take all reasonable steps to rectify its position and to comply with that subsection as soon as may be reasonable in the circumstances.

- To whom does section 164(1)(c) apply? (MFMA Circular no. 8 of 2004)

The term “councillor” and the term “official” are defined in section 1 of the MFMA. The MFMA does not differentiate between categories of officials and therefore applies to all officials.

In the context of section 164(1)(c), “member of the public” refers to all persons in the community as a whole. This includes both individual members of the public (natural persons) and organisations, associations, bodies corporate or the like (juristic persons). Therefore a loan to a resident, business, company, non-governmental organisation, sport club and the like is not permitted.

## **Sarah Baartman District Municipality**

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- No loans to individuals are allowed but municipalities within the jurisdiction of SBDM are still allowed to apply and procure a loan from the SBDM.

### **2.3 Application**

In terms of the MFMA municipalities may only procure long term loans for capital purposes. If a municipality applies for a long term loan from SBDM this application must be accompanied by all the necessary proof that the requirements of Section 46 of the MFMA have been complied with.

### **2.4 Approval**

Before a long term loan to a municipality within the jurisdiction of SBDM can be approved by council the following requirements must be complied with:

- The municipality must provide proof that it was not possible to procure a loan from another external source;
- That all the requirements of Section 46 of the MFMA are complied with;
- That sufficient cash is available (not needed on the short to long term for other purposes) to SBDM to make this loan;
- A loan agreement be entered into;
- That a market related interest is charged for example 85% of the prime interest rate;
- That the contract make provision for the adaption of the interest rate if market conditions change;
- A reasonable period for repayment be granted depending on the term availability of the cash loaned;
- At the discretion of council any security for such loan to be included in the contract.

### **2.5 Recording and disclosure**

The approved loan will be recorded and disclosed as a non current asset in the statement of financial position. The short term portion (the redemption for the next financial period) will be transferred to the current asset portion on the statement of financial position and be disclosed as the "short term portion of long term receivables".

### **2.6 Existing loans at inception of the MFMA**

Existing policies, practices, agreements and other arrangements within the municipality prior to 1 July 2004 are to be phased-out, as and when these lapse.

### **2.7 Reporting**

All new and existing loans must be reported to council in detail and be disclosed in the annual report and financial statements.

### 3. Funding and Reserves

Notice 393 of 2009 published in the Government Gazette of 17 April 2009 determines as follows:

8. (1) Each municipality must have a funding and reserves policy which must set out the assumptions and methodology for estimating –
- (a) projected billings, collections and all direct revenues;
  - (b) the provision for revenue that will not be collected;
  - (c) the funds the municipality can expect to receive from investments;
  - (d) the dividends the municipality can expect to receive from municipal entities;
  - (e) the proceeds the municipality can expect to receive from the transfer or disposal of assets;
  - (f) the municipality's borrowing requirements; and
  - (g) the funds to be set aside in reserves.

(2) When developing or amending the funding and reserves policy of the municipality, the municipal manager must ensure that the policy –

- (a) is consistent with the most recent actual billings and collection trends;
- (b) takes into account the credit rating of the municipality, if available, the financial position of the municipality, the cost of borrowing and the capacity to repay debt;
- (c) takes into account all the budget-related policies of the municipality, particularly recent amendments to any of those policies;
- (d) takes account of any statutory requirements to set aside funds in reserves; and
- (e) takes account of the transfer and disposal of assets.

#### 3.1 Projected billings

All District Management Areas are withdrawn by the Municipal Demarcation Board. The District municipality therefore has no area where it can affect any form of billing.

#### 3.2. Collections

##### 3.2.1 Sundry revenue

GRAP 9 paragraph 22 states the following:

Revenue is recognised only when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. However, when uncertainty arises about the collectability of an amount already included in revenue, the uncollectible amount, or the amount in respect of which recovery has ceased to be probable, is recognised as an expense, rather than as an adjustment of the amount of revenue originally recognised.

### **3.2.3 *Interest on investments***

Interest on investments is assumed to be collectable when due.

## **3.3 Direct Revenue**

### **3.3.1 *Unconditional Grants***

Revenue from grants is assumed to be in accordance with the published grant amounts or official grant allocations.

### **3.3.2 *Conditional Grants***

Revenue from conditional grants is recognised when the conditions are met.

### **3.3.3 *Other direct revenue***

Estimation determining other direct revenue is based on history for similar revenue, estimated cash flows and costs involved where applicable.

## **3.4 Provision for impairment**

Financial assets are carried at amortised cost. The amount of the potential loss is estimated as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the prevailing prime rate.

## **3.5 Funds the municipality can expect from investments**

To calculate the possible estimated funds that can be realised from investments the municipality must determine:

- The possible cash flow that might be available for investing with expected investment periods (excluding cash flow with conditions regarding the allocation of interest other than revenue);
- The assumed interest rate fluctuations. This will be based on economic forecasts and bulletins.

### **3.6 Proceeds the municipality can expect from the sale of assets**

The estimated proceeds from the sale of assets will be determined by subtracting the carrying value of the assets for sale from the expected selling price of these assets. In this determination the municipality must have:

- An approved plan for selling the assets; and
- An estimation of market value (selling price) of the assets.

### **3.7 The municipality's borrowing requirements**

SBDM does not administer any large infrastructure networks and will therefore not have any borrowing requirements.

### **3.8 Funds to be set aside in reserves**

#### **3.8.1 *Revaluation reserve***

In terms of directive 1, the transitional provisions allowed in paragraph 144 of GRAP 1 were withdrawn and only reserves allowed in terms of a standard of GRAP will be disclosed in net assets in the statement of financial position. Currently the only permissible reserve is the Revaluation reserve in terms of GRAP 17.

Funds to be allocated to this reserve are the difference between the revalued amount of a property that is disclosed in terms of GRAP 17 (readjusted for depreciation) and the carrying value of the property. This reserve is not cash funded and is to be utilised for offsetting depreciation charges calculated on the revalued portion of the property.

#### **3.8.2 *Reserves ring fenced within the Accumulated Surplus account***

Any other reserves which the municipality may wish to create can only be done by ring fencing such a reserve within the accumulated reserve balance. This balance will be and treated as part of the accumulated surplus account.

#### **3.8.3 *Disclosure***

The revaluation reserve and any other reserve that may be created in terms of a standard of GRAP are disclosed in net assets on the statement of financial position. All other "reserves" will be disclosed as part of the accumulated surplus balance.



## **4. Long Term Liabilities and Deferred Income**

### **4.1 Definitions**

Long term liabilities are recorded on the statement of financial performance and represent the municipality's liability for finance leases, loan repayments and other items (including deferred income) that are due in more than one financial year.

Deferred income is the portion of unspent conditional grants that have not yet been released to revenue due to conditions that have not yet been met or is not repayable to the National Treasury due to under spending.

### **4.2 Initiation and Purpose**

#### **4.2.1 Loans and finance leases**

The municipality may incur loans and finance leases only after the requirements of Section 46 of the MFMA have been complied with and only for the purpose of capital expenditure.

These requirements include the following:

- A resolution of the council, signed by the mayor, approving the debt agreement;
- A debt agreement or other document signed by the accounting officer which creates or acknowledges the debt;
- The accounting officer must, at least 21 days prior to the meeting of the council at which approval of the debt is to be considered, make public an information statement setting out particulars of the proposed debt, including the amount of the proposed debt, the purposes for which the debt is to be incurred and particulars of any security to be provided;
- The accounting officer must invite the public, the National Treasury and the relevant provincial treasury to submit written comments or representations to the council in respect of the proposed debt;
- The accounting officer must submit a copy of the information statement to the council at least 21 days prior to the meeting of the council, together with particulars of the essential repayment terms, including the anticipated debt repayment schedule and the anticipated total cost in connection with such debt over the repayment period.

### *4.2.2. Employee benefits*

Employee benefit obligations are regulated by IAS 19 and council is currently obliged to provide for post employment medical aid contributions. This obligation is to be calculated by a qualified actuary on a regular basis as needed at the discretion of the accounting officer.

### *4.2.3. Deferred income*

The unreleased portion of unspent conditional grants that is not going to be released in the next financial period will be disclosed as deferred income under non-current liabilities.

The portion of deferred income to be released in the next financial period will be disclosed as current liabilities.

### **4.2.4. Accounting treatment of long term liabilities**

#### *4.2.4.1. Loans*

An asset and a long term liability will be created by debiting PPE and crediting a long term liability account. The payments on this loan will be split between capital repayment and an interest charge, the repayment to be debited against the liability and the interest to be included in the statement of financial performance as a finance cost.

#### *4.2.4.2. Finance leases*

Finance leases are regulated by GRAP 13 and when identified as such an asset account will be debited with the lower of the fair value or the discounted cash flow using the interest rate inherent to the lease or a rate that will be applicable in a similar transaction. The finance repayment value will be credited to a lease obligation account to be disclosed as a long term liability. The minimum lease payments as at the initiation of the lease will be applied in the calculation of the loan redemption and interest split. Any changes in the interest rate as required by the service provider under the lease contract will be adjusted on the remainder of the lease contract. These payments will be treated as per the loans discussed above. Excess payments will be treated as contingent payments, debited as expenditure in the statement of financial performance and disclosed as such.

## **5 Provisions**

Provisions are accounted for in accordance with GRAP 19.

### **5.1 A provision shall be recognised when:**

- SBDM has a present obligation (legal or constructive) resulting from past events (at reporting date);
- It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- A reliable estimate can be made of the amount of the obligation.

Financial statements deal with the financial position of SBDM at the end of its reporting period and not its possible position in the future. Therefore, no provision is recognised for costs that need to be incurred to continue SBDM's ongoing activities in the future. The only liabilities recognised in SBDM's statement of financial position are those that exist at the reporting date.

### **5.2 Measurement**

The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the reporting date. The estimates of outcome and financial effect are determined by the judgment of the management of SBDM.

Where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation. The discount rate will reflect the current market assessments of the time value of money (prime rate).

### **5.3 Use of provisions**

A provision shall be used only for expenditures for which the provision was originally recognised.

### **5.4 Disclosure**

SBDM will disclose provisions in the annual financial statements in accordance with the requirements of paragraphs 107 to 120 of GRAP 19.

## **6 Financial Instruments**

### **6.1 Definition**

A financial instrument is a contract, which is either written or verbal, to receive an asset which in turn creates a liability that must be settled either in cash or with another financial instrument.

### **6.2 Recognition**

Financial instruments are recognised and measured in terms of IAS 39.

### **6.3 Classification**

SBDM classifies its financial instruments as follows:

- Financial assets – loans and receivables
- Financial liabilities – at amortised cost

### **6.4 Risk analysis**

SBDM will perform and disclose in notes to the AFS the following risk analysis:

- Credit Risk: the risk that the other party to a financial asset will cause a financial loss for SBDM by failing to discharge their obligation.
- Liquidity risk: the risk that SBDM will encounter difficulty in meeting obligations associated with financial liabilities.
- Market risk: the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk:
  - Currency risk:

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.
  - Interest rate risk:

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

- Other price risk:

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

### **6.5 Measurement**

*Initial recognition:* at fair value

*Subsequent recognition:* at amortised cost, applying the prime interest rate as the effective rate of interest.

## **7. Financial Statement Close Process**

The Finance Manager will produce and distribute an information requirement list for the annual financial statements on or before 30 April of each year. This list will indicate the information requirements for the financial statements from each directorate and the person responsible for producing such information. Time frames will be set and if any indicated responsibility cannot be met the Finance Manager must be informed at least two weeks ahead of the deadline with acceptable reasons why the information cannot be produced.

This requirement list will have the same impact as if the Municipal Manager has issued pertinent instructions and will form part of the audit working papers.

The Finance Manager will follow up on the responses to deadlines and will report to the Municipal Manager any non-compliance from directorates.

The Finance Manager will determine a closing date for the acceptance of invoices for payment affecting the financial year being closed off. This date will also affect the last date upon which ordering and purchasing will be allowed.

The Finance Manager will determine at what stage journal entries in the system are to be finalised and thereafter only yearend closing off journals will be allowed. A person is to be appointed to approve and correlate any journal entries.

The annual financial statements are to be completed at least two weeks before the official completion date of 31 August so as to allow for correlation with the annual report and performance reports.

## **8. Other Income**

### **8.1 Definition**

Other income as represented on the statement of financial performance refers to income as required from a standard of GRAP other than GRAP 9 (Revenue from exchange transactions) or the not yet promulgated GRAP 23 (Revenue from non exchange transactions - taxes and transfers).

Examples of such income are:

- Gain on disposal of PPE – GRAP 17
- Actuarial gain on post retirement benefit – IAS 19
- Amortisation of financial instruments – IAS 39

### **8.2 Initiation**

The income is initiated by applying the requirements of the GRAP standards involved.

### **8.3 Recording**

Other income is recorded separately from and does not form part of revenue disclosure as per GRAP 9. Other income is recorded in terms of the requirements of the GRAP standards involved.

Other income is usually recorded by way of journal entries as there is not usually a cash flow involved. If there is a cash flow, then normal receipting procedures will apply.

## **9. Grant Income**

### **9.1 Unconditional grant**

#### *9.1.1 Type of grant*

The primary source of unconditional grant income is the equitable share allocation from the National Treasury.

#### *9.1.2 Object of the grant*

The main object of the grant is to supply the municipality with operational funding in order to exercise its operational obligations and to provide services to indigents.

#### *9.1.3 Recording of the grant*

The allocation made to the municipality is recorded in the Division of Revenue Act and will be recorded in full as revenue in terms of GRAP 9 by creating a receivable.

#### *9.1.4 Receipting of the grant*

The unconditional grants are paid in three instalments. The receipt of each will be allocated to the receivable account created for unconditional grants. Any surplus funds not needed for immediate application is to be invested in terms of the municipality's investment policy.

#### *9.1.5 Application of the grant*

The grant is first to be applied in providing services to indigents where the municipality is the service provider. Any remaining funds are to be applied in terms of the municipalities approved budget.



### 9.2 Conditional grants

#### 9.2.1 *Type of grant*

Any grant allocated to the municipality from government or public which is subject to a condition being met in the application thereof before the grant can be recognised as revenue.

#### 9.2.2 *Object of the grant*

Conditional grants are approved by government or other institution for a specific purpose which can be either operational or capital of nature. Therefore the grant cannot be applied for any other purpose but the one specified.

#### 9.2.3 *Recording of the grant*

Upon receipt the grant will be recorded against an unspent grant creditor / deferred income account. In accordance with GRAP 9 the money on the grant can only be released if the expenditure complies with the condition attached to the grant. Until this condition is met the unspent portion of such a grant will be owned to the grantee.

When the Finance Manager is satisfied that the grant was applied in accordance with the specified condition, an amount, equal to that which has met the grant condition, will be transferred from the creditor / deferred income account to a revenue account and be disclosed as such on the statement of financial performance.

#### 9.2.4 *Application of the grant*

The grant may only be applied for the purpose or according to the conditions as stipulated by the grantee.

## 10. Interest Income

### 10.1 Definition

In this policy, unless the context indicates otherwise:

**“Investment”** means -

- (a) the placing on deposit of funds with a financial institution; or
- (b) the acquisition of monetary assets with funds not immediately required, with the primary aim of preserving those funds.

**“Investee”** means an institution with which an investment is placed, or its agent.

**“Interest earned”** means the amount of interest paid by an investee to the municipality for the investment made by the municipality.

**“Interest on arrears”** means the interest charges on arrear receivables in terms of the municipality’s Debt Collection policy.

**“Date of payment”** means the date as determined by council for payment of receivables.

### 10.2 Invested funds

Funds are invested in terms of the Investment and Cash Management policy of the municipality.

### 10.3 Accounting treatment of interest earned

*10.3.1 GRAP 9 (Revenue from exchange transactions), paragraph 34-35 determines:*

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends shall be recognised using the accounting treatment set out in paragraph .35 when:

- (a) It is probable that the economic benefits or service potential associated with the transaction will flow to the entity; and
- (b) The amount of the revenue can be measured reliably.

Interest shall be recognised using the effective interest rate method as set out in the Standards of GRAP on Financial Instruments.

10.3.2 Interest earned on unspent conditional grants invested will be allocated directly to the unspent grant creditors account if the conditions of such a grant require it. All other interest earned will be allocated to a revenue account.

10.3.3 Interest earned on the reporting date but not yet allocated by the investee shall be calculated in terms of paragraph 10.3.1 of this policy and allocated to an interest receivable account.

### **10.4 Disclosure of interest earned on external investments**

Interest earned will be disclosed as a separate line item on the statement of financial performance or if appropriate as part of the balance on the payables disclosed on the statement of financial position.

### **10.5 Interest on debt in arrears**

10.5.1 Unpaid accounts at date of payment, excluding accounts delivered to indigents, shall be said to be in arrears.

10.5.2 The interest rate applicable will be the prime rate as at the time of arrears plus one and a half percent calculated daily pro rata for the period that the account is in arrears.

10.5.3 Interest will be levied until the debtor's account is deemed to be impaired, as per the bad debt policy, and the benefit of the interest will not flow to the municipality.

### **10.6 Disclosure of interest on arrear accounts**

Interest charged on arrear accounts will be disclosed as a separate line item in the statement of financial performance.

## **11. Value Added Tax**

### **11.1. Introduction**

It is important that the municipality submit VAT returns timeously and accurately in accordance with all VAT related legislation. Furthermore general operational procedures should be in place to ensure the effective and efficient working of VAT related administration. VAT is calculated based on the payments system.

### **11.2. VAT 201 forms**

#### *11.2.1 Completion and submission*

- Monthly / two monthly VAT201 returns should be completed and submitted to SARS on / before the 25<sup>th</sup> day of the month following on the month in which a VAT period ends.
- The municipality should agree the information on the VAT201 assessment done by SARS each month with the information filled in on the VAT201 return by the municipality. Unexplained differences or disagreements between the above mentioned VAT assessment and return should be taken up with SARS.
- Payments made to and received from SARS should be done punctually and payments to/receipts from SARS should be agreed to the municipality's monthly bank statements.

#### *11.3 General*

- Output VAT should be declared with regard to the following: benefits to personnel, insurance claims received and fixed assets sold.
- VAT should be paid in the correct period and using the prescribed percentage.
- The actual payment (amount due to SARS) or income (amount due by SARS) should be reflected as either a creditor or debtor in the AFS for the year ended 30 June.
- VAT can only be claimed if supported by a valid tax invoice, as required by section 20(4) of the VAT Act.
- No VAT is to be claimed on the following expenditure: entertainment, subscriptions and passenger vehicles.

## Sarah Baartman District Municipality

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- VAT should be claimed on bad debts written-off, discounts allowed, and credit notes issued (if on invoice system).
- Output VAT should be declared on any consumer deposits utilised to redeem outstanding accounts.
- A VAT reconciliation should be performed by the municipality to determine the accuracy and completeness of the output VAT paid and input VAT claimed by the municipality for the financial year.
- Ensure that VAT is accounted for at the zero-rate (0%) for the following supplies:
  - Municipal property rates
  - Grants utilised for the purposes of taxable supplies
  - Supplies to a vendor in a customs controlled area.
  - Exports
  - Housing subsidies
- Grants received for the purpose of service delivery in terms of section 8(5A) of the VAT Act may be zero rated in terms of section 11(2)(t) of the VAT Act, provided that the grants received are in connection with taxable services supplied by the municipality.
- The making of exempt supplies as envisaged in section 12 of the VAT Act, by a municipality, does not fall within the ambit of the municipality's enterprise activities.

## **12. Investment Property**

### **12.1. Identification**

In terms of GRAP 16 investment property is property (land or a building, or part of a building, or both) held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both, rather than for:

- (a) use in the production or supply of goods or services or for administrative purposes; or
- (b) sale in the ordinary course of operations.

The classification of investment property depends on the intention of management and therefore requires judgement to determine whether a property qualifies as an investment property. Criteria for identification will be as follows:

- Property held for long-term capital appreciation;
- Property leased out to another party under an operating lease;
- Vacant property held for the purpose of leasing it in the future; and
- Land and buildings held for undetermined use.

### **12.2. Measurement**

12.2.1. Investment property is initially measured at cost, which includes transaction costs such as legal fees, cost of title deed registration and any other taxes on the purchase of property.

12.2.2 Where investment property was acquired at no cost, it is initially measured at fair value.

12.2.3 The cost of self-constructed investment property is its cost at the date when the construction or development is complete under GRAP 17.

12.2.4. The cost of investment property is not increased by:

- start-up costs unless they are necessary to bring the property to the condition necessary for it to be capable of operating in the manner intended by management;
- operating losses incurred before the investment property achieves the planned level of occupancy; or
- abnormal amounts of wasted material, labour or other resources incurred in constructing or developing the property.

12.2.5. According to GRAP 16 .30 the initial cost of a property interest held under a lease and classified as an investment property shall be as follows: the lower of the fair value of the property or the present value of the minimum lease payments.

## Sarah Baartman District Municipality

12.2.6. Subsequent to initial measurement, a municipality should either measure its investment property at fair value or cost less accumulated depreciation and accumulated impairment losses.

- Adopting the fair value model entails measuring all investment property at their fair value and recognising changes in their fair value in the statement of financial performance at each reporting date.
- If the cost model is adopted as the accounting policy, the investment property is measured at cost less accumulated depreciation and accumulated impairment losses.

### 12.3. Subsequent expenditure

The rules for the capitalisation of subsequent expenditure on investment property are identical to the rules in GRAP 17. Subsequent expenditure can only be added to the cost of the asset if it meets the recognition criteria below:

- It is probable that future economic benefits will flow to the municipality;  
and
- The costs can be reliably measured.

Day to day maintenance and repairs on the investment property may not be added to the carrying value of the asset.

### 12.4. Transfers

Transfers to and from investment property are only made when there is a change in use and can be summarised as follows:

| Change in use                                    | Transfer from                 | Transfer to                   | Treatment of carrying value  |
|--|-------------------------------|-------------------------------|--|
| Commencement of owner occupation                 | Investment property           | Property, plant and equipment | Fair value at date of transfer is deemed cost  |
| Commencement of development with a view to sell  | Investment property           | Inventory                     | Fair value at date of transfer will be the deemed cost                                       |
| End of owner occupation                          | Property, plant and equipment | Investment property           | Difference between carrying amount and fair value is treated the same as revaluation surplus |
| Commencement of operating lease to another party | Inventory                     | Investment property           | Difference between carrying amount and fair value recognised in surplus/deficit              |
| End of construction or development               | Property, plant and equipment | Investment property           | Difference between carrying amount and fair value recognised in surplus/deficit              |

### 12.5 Disclosure requirements

The municipality elected to reflect all of its investment properties at fair value and must disclose in the AFS the following information:

- Whether and in what circumstances, property interests held under operating leases are classified and accounted for as investment property.
- The criteria developed by the municipality to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations.
- The methods and significant assumptions applied in determining the fair value of investment property, including a statement whether the determination of fair value was supported by market evidence or was more heavily based on other factors (which the municipality should disclose) because of the nature of the property and lack of comparable market data.
- The extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognized and relevant professional qualification and who has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact should be disclosed.
- The amounts included in the statement of financial performance for:
  - Rental revenue from investment property;
  - Direct operating expenses (including repairs and maintenance) arising from investment property that generated rental revenue during the period;
  - Direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental revenue during the period;
  - The cumulative change in fair value recognised as surplus or deficit on the sale of investment property.
- The existence and amounts of restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal;
- Material contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements;



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- A reconciliation of the carrying amount of investment property at the beginning and end of the period showing the following (comparative information is not required):
  - Additions, disclosing separately those additions resulting from acquisitions and those resulting from capitalised subsequent expenditure;
  - Additions resulting from acquisitions through municipality combinations;
  - Disposals;
  - Net gains or losses from fair value adjustments;
  - Transfers to and from inventories and owner-occupied property; and
  - Other movements.



**Sarah Baartman**

DISTRICT MUNICIPALITY

*Province of the Eastern Cape*

*progress through development*

**POLICY ON UNAUTHORISED,  
IRREGULAR, FRUITLESS  
AND WASTEFUL  
EXPENDITURE AND THE  
ENFORCEMENT OF PROPER  
FINANCIAL MANAGEMENT**

**May 2017**

**POLICY ON UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL  
EXPENDITURE AND THE ENFORCEMENT OF PROPER FINANCIAL MANAGEMENT**

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## **1. Introduction**

In terms of section 62 of the Municipal Finance Management Act No. 56 of 2003 (herein referred to as "the Act"), the accounting officer is responsible for managing the financial affairs of the municipality and he/she must, for this purpose, inter alia:

- (a) take all reasonable steps to ensure that:
  - unauthorised; and
  - irregular; and
  - fruitless and wasteful expenditure; and
  - other losses are prevented; and
- (b) ensure that disciplinary or, when appropriate, criminal proceedings are instituted against any official of the municipality who has allegedly committed an act of financial misconduct or an offence in terms of Chapter 15 of the Act.

This policy is aimed at providing the accounting officer with an overview of legislation pertaining to unauthorised, irregular, fruitless and wasteful expenditure and the recovery of same where applicable.

## **2. Purpose and scope**

The purpose of this policy is to:

- provide clarity on relevant legislation and regulations applicable to irregular, fruitless and wasteful, and unauthorised expenditure;
- enhance the awareness of officials of the department to prevent and detect irregular, fruitless and wasteful, and unauthorised expenditure;
- enhance correct reporting, investigation, identification and management of irregular, fruitless and wasteful, and unauthorised expenditure; and
- strengthen the internal control environment with regard to management of irregular, fruitless and wasteful, and unauthorised expenditure.

## **3. Restriction on the incurring of expenditure**

Section 15 of the Act provides that a municipality may, except where otherwise provided therein, incur expenditure only -

- (a) in terms of a budget approved by the council or by a provincial or the national executive following an intervention in terms of section 139 of the Constitution and also an annual budget as revised by an adjustments budget in terms of section 28 of the Act; and
- (b) within the limits of the amounts appropriated for the different votes in an approved budget.

#### 4. Withdrawal of money from a municipal bank account

In terms of section 11(3) of the Act, money may be withdrawn from a bank account of the municipality without appropriation (without further budget approval) in terms of an approved budget for the following purposes:

- (a) to defray expenditure authorised in terms of section 26 (4) which provides that, until a budget for the municipality is approved, funds for the requirements of the municipality may, with the approval of the MEC for local government, be withdrawn from the municipality's bank accounts subject to certain conditions and restrictions;
- (b) to defray unforeseeable and unavoidable expenditure authorized by the mayor in emergency or other exceptional circumstances in terms of section 29 (1) of the Act and the council's applicable policy;
- (c) in the case of a bank account opened in terms of section 12 of the Act for relief, charitable and trust purposes, to make payments from such account but only by or on the written authority of the accounting officer acting in accordance with decisions of the council and for the purposes for which, and subject to any conditions on which, the fund was established or the money in the fund was donated;
- (d) to pay over to a person or organ of state money received by the municipality on behalf of that person or organ of state, including money collected by the municipality on behalf of that person or organ of state by agreement or any insurance or other payments received by the municipality for that person or organ of state;
- (e) to refund money incorrectly paid into a bank account;
- (f) to refund guarantees, sureties and security deposits;
- (g) for cash management and investment purposes in accordance with the cash and investment policies of the municipality;
- (h) to defray increased expenditure in terms of section 31 of the Act which relates to the shifting of funds between multi-year appropriations;
- (i) for such other purposes prescribed under the Act.

#### 5. Defining concepts

**"Unauthorised expenditure"** is incurred by the municipality otherwise than in accordance with section 15 or 11 (3), and includes -

- (a) overspending of the total amount appropriated in the municipality's approved budget;
- (b) overspending of the total amount appropriated for a vote in the approved budget;
- (c) expenditure from a vote unrelated to the department or functional area covered by the vote;
- (d) expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
- (e) spending of an allocation of money made to the municipality by the national government from revenue raised nationally contrary to the condition(s) of such allocation or an allocation of money to a municipality in terms of a provincial budget;
- (f) a grant by the municipality otherwise than in accordance with the Act.

Essentially, "unauthorised expenditure" includes overspending on the total amount of the budget, overspending on a vote, the incurring of expenditure unrelated to a vote and the incurring of expenditure for a purpose other than the approved purpose.

It should be noted that "unauthorised expenditure" excludes "irregular" expenditure.

Unauthorised expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No. 56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

**"Irregular expenditure"** occurs in the following circumstances:

- (a) Where the expenditure concerned is incurred by the municipality or a municipal entity in contravention of, or that is not in accordance with, a requirement of the Act, and which has not been condoned in terms of section 170 thereof.

In terms of section 170 of the Act, National Treasury may, on good grounds, approve a departure from a treasury regulation or from any condition imposed in terms of the Act. Non-compliance with a regulation made in terms of section 168 or with a condition imposed by the National Treasury in terms of the Act may, on good grounds shown, also be condoned by the National Treasury.

- (b) Expenditure incurred by the municipality or a municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;
- (c) Expenditure incurred by the municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or
- (d) Expenditure incurred by the municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law, but excludes expenditure by a municipality which falls within the definition of "unauthorised expenditure".

The accounting officer may, in terms of section 36(1)(b) of the Municipal Supply Chain Management Regulations, ratify any minor breaches of the procurement processes by an official or committee acting in terms of delegated powers or duties which are purely of a technical nature. The accounting officer must record the reasons for any deviations and report them to the next meeting of the council or board of directors in the case of a municipal entity, and include same as a note to the annual financial statements.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No. 56 of 2003), the Municipal Systems Act (Act No. 32 of 2000), the Remuneration of Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

A **"vote"** means one of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the

municipality and which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.

**“Overspending”** occurs in the following circumstances:

- (a) where the operational or capital expenditure incurred by the municipality during a financial year exceeds the total amount appropriated in that year's budget for operational or capital expenditure, as the case may be;
- (b) in relation to a vote, in the event of expenditure exceeding the amount appropriated for that vote; or
- (c) where expenditure pending the approval of the budget of the municipality exceeds the amount permissible in terms of section 26(5) of the Act. In terms of this sub-section, funds withdrawn from a municipality's bank accounts in terms of sub-section (4) may be used only to defray current and capital expenditure in connection with votes for which funds were appropriated in the approved budget for the previous financial year and any withdrawal may not, during any month, exceed eight per cent of the total amount appropriated in that approved budget for current expenditure, which percentage must be scaled down proportionately if revenue flows are not at least at the same level as the previous financial year and exceed the amount actually available.

### ***Fruitless and wasteful expenditure***

The Act defines “fruitless and wasteful expenditure” as expenditure that was made in vain and would have been avoided had reasonable care been exercised.

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

## **6. Irregular expenditure**

**6.1** The following are examples of irregular expenditure:

- Purchases exceeding threshold
- Procuring without inviting competitive bids
- Non-compliance with delegations of authority
- Non-compliance with legislation, e.g. public service regulations

**6.2** For the purposes of determining whether irregular expenditure has taken place, there must be a transgression of a provision contained in applicable legislation, or any approved internal policy, procedures and instructions that has or have been issued or approved by the municipality.

**6.3** For an institution to incur irregular expenditure, the non-compliance must be linked to a financial transaction. Although a transaction or an event may trigger irregular expenditure, an institution will usually identify irregular expenditure only when a payment is made. In an instance where irregular expenditure is determined prior to a payment being made, the transgression shall be regarded as a non-compliant matter.

**6.4** Non-compliance with the Act or other relevant legislation shall not necessarily be regarded as irregular expenditure, unless the expenditure, i.e. actual payments, related

to such non-compliance is inconsistent with any prescripts of the legislation.

**6.5** The Irregular Expenditure Register must be updated throughout the process until the case is finally closed.

## **7. Write off of irregular expenditure**

**7.1** Irregular expenditure which is identified and confirmed may be considered for write off.

**7.2** For the purpose of write off, a detailed submission must be submitted to the council requesting write off for non-compliance with the Act or any other applicable legislation. A request for write off may be submitted only when good cause is shown for such write off.

**7.2.1** The submission of a report for write off must contain

- a detailed motivation as to why the irregular expenditure in question should be considered for write off; and
- a description of remedial steps taken to avoid the reoccurrence of this type of irregular expenditure.

**7.2.2** The submission of a report for write off must be structured as follows:

- Purpose
- Background
- Applicable legislative framework
- Motivation for write off
- Remedial steps to prevent reoccurrence
- Financial implications
- Personnel implications
- Parties consulted
- Recommendations

**7.3** In the event of an approval of the write off of irregular expenditure by the council, no further action is required, as the amount has been expended in the statement of financial performance. The Irregular Expenditure Register must be updated to reflect the write off of the irregular expenditure.

**7.4** Dismissal of the submission for write off of the irregular expenditure or where write off is not relevant, must determine if any person is liable in law for the irregular expenditure and immediate steps must be implemented to recover such expenses from the person(s) found to be liable in law. (Refer to paragraph 11 below: Recovery of expenses from officials liable in law.)

**7.5** If the irregular expenditure has not been written off and no person is liable in law, the expenditure related thereto must remain against the relevant programme or expenditure item (no journal is passed) and be disclosed as such in the note to the annual financial statements.

**7.6** The Irregular Expenditure Register must be updated throughout the process until the case is finally closed.



## **8. Fruitless and wasteful expenditure**

### **8.1** The following are examples of fruitless and wasteful expenditure:

- Expenditure due to negligence, e.g. cancellation fees incurred for missing a flight;
- Interest on overdue accounts; and
- Penalties paid.

### **8.2** Fruitless and wasteful expenditure is an in-house matter, and thus it is the responsibility of the Accounting Officer to deal with it as prescribed. Only in exceptional cases, such as where the Accounting Officer incurs the fruitless and wasteful expenditure, would the Executive Mayor intervene and make recommendations on how to resolve the matter.

### **8.3** After identification and confirmation of fruitless and wasteful expenditure, it must be captured as such on the financial system.

### **8.4** It must be determined if any official(s) is/are liable in law for the fruitless and wasteful expenditure and immediate steps must be taken to recover such expenses from the official(s) found to be liable in law. (Refer to paragraph 11: Recovery of expenses from officials liable in law.)

### **8.5** The Fruitless and Wasteful Expenditure Register must be updated throughout the investigation process until the case is finally closed.

## **9. Unauthorised expenditure**

### **9.1** The following are examples of unauthorised expenditure:

- Overspending on budget;
- Earmarked funds used for other purposes; and
- Funds used outside the mandate of the department.

### **9.2** The department must spend only funds provided and spend them only for the purposes for which they were provided.

### **9.3** Overspending on the budget is normally identified before final closure of the departmental books and after final virement.

### **9.4** Funds not utilized for the purpose of the vote should be identified timeously.

### **9.5** There must be a financial transaction (a payment) before unauthorised expenditure can occur. Therefore, the unauthorised expenditure occurs only when payment is made and not when funds are over-committed.

### **9.6** After identification and confirmation, unauthorised expenditure is recognised as an asset in the statement of financial position until such time as the expenditure is either approved by the relevant authority, recovered from the responsible person or written off as irrecoverable in the statement of financial performance.

### **9.7** Unauthorised expenditure approved with funding is recognised in the statement of financial position when the unauthorised expenditure is approved and the related funds are received.

### **9.8** In the statement of financial performance, unauthorised expenditure approved without funding is recognised as expenditure on the date of approval.

**9.9** Unauthorised expenditure must be reported in the annual report (as a note to the Financial Statements in terms of National Treasury Regulations 9.1.5).

**9.10** The Unauthorised Expenditure Register must be updated throughout the investigation process until the case is finally closed.

## **10. Unauthorised expenditure and irregular expenditure**

**10.1** If a department carries out a transaction that contravenes legislation, the transaction meets the definition of irregular expenditure. The same transaction may be outside the mandate of the department or may cause overspending on a programme or a vote which meets with the definition of unauthorised expenditure.

**10.2** A transaction of this nature must not be accounted for as both unauthorised expenditure and irregular expenditure. Unauthorised expenditure takes precedence over irregular expenditure and, in this instance, the transaction shall be accounted for as unauthorised expenditure.

## **11. Recovery of expenses from officials liable in law**

**11.1** The process to determine whether an official is liable in law should be conducted by the Accounting Officer in consultation with the Legal Officer.

**11.2** Should it be so recommended, such cases from the Legal Officer must be referred to the Corporate Service Division to confirm whether any disciplinary steps or actions should be instituted against the relevant official.

**11.3** Should an official or officials be found to be liable in law by the Legal Officer to repay the expenses, the Chief Financial Officer must immediately attempt to recover the expenses from such person(s) by issuing a written notice to the official (s) in this regard.

**11.4** The Chief Financial Officer must request, in writing, the official(s) liable in law to repay the amount(s) within 30 days or in reasonable instalments.

**11.5** If no official is found to be liable in law, the expenditure related thereto must remain against the relevant programme or expenditure item (no journal is passed) and be written off and disclosed as such in the note to the annual financial statements.

**11.6** If it is confirmed that recovery from a liable official is not possible, the Accounting Officer may write off the amount as bad debt subject to the approval by Council.

## **12. Procedure for investigation and reporting**

The procedure for reporting irregular, fruitless and wasteful, and unauthorised expenditure is as follows:

**12.1** Any employee who becomes aware or suspects the occurrence of irregular, fruitless and wasteful, or unauthorised expenditure must immediately report such expenditure in writing to the Accounting Officer.

**12.2** On identification of alleged irregular, fruitless and wasteful, or unauthorised expenditure, such expenditure must be left in the expense account.

**12.3** Reporting may also occur during the various assurance processes, i.e. internal audit, external audit, compilation of the annual financial statements or normal inspections.

- 12.4** The Accounting Officer is responsible for:
- 11.4.1 reporting to Council all irregular, fruitless and wasteful, and unauthorised expenditure that was referred to his or her attention; and
  - 11.4.2 recording the details of the alleged expense in his or her relevant Irregular, Fruitless and Wasteful, and Unauthorised Expenditure Register.
- 12.5** The Accounting Officer must investigate the matter without delay to determine the validity thereof, i.e. whether it meets the definition of irregular expenditure, fruitless and wasteful expenditure or unauthorised expenditure.
- 12.6** Managers should assist and co-operate with Accounting Officers in every aspect of an investigation.
- 12.7** The Accounting Officer must immediately notify the Council of progress with and the outcome of an investigation. Notification must be in the form of a written report, accompanied by supporting documentation, if relevant. (See paragraph 7.2.2)
- 12.8** The Accounting Officer must immediately record details of reported cases in the Irregular, Fruitless and Wasteful, and Unauthorised Expenditure Register.
- 12.9** For each reported case, the Accounting Officer must open a case file containing all the evidence and reports received.
- 12.10** The Irregular, Fruitless and Wasteful, and Unauthorised Expenditure Register must be:
- 12.10.1 available at all times for inspection and audit purposes;
  - 12.10.2 kept in a safe place and protected against fire, water and damage; and
  - 12.10.3 maintained in electronic format.
- 12.11** Progress with and the outcome of each investigation must be updated continually in the relevant register.
- 12.12** During the period of investigation, the expenditure must remain in the expense account and the result of the investigation will determine the appropriate action to be taken regarding that expenditure.
- 12.13** Should the investigation reveal that the expenditure does not constitute irregular, fruitless and wasteful, and unauthorised expenditure and is in fact valid expenditure, the details of the expenditure should be retained in the relevant Irregular, Fruitless and Wasteful, and Unauthorised Expenditure Registers for the purposes of completeness and to provide an appropriate audit trail.
- 12.14** The Accounting Officer must monitor reported cases until such cases have been resolved.
- 12.15** The Accounting Officer must update the relevant Irregular, Fruitless and Wasteful, and Unauthorised Expenditure Register and case files throughout the process until such cases are closed.
- 12.16** If the investigation indicates that the expenditure is irregular, fruitless and wasteful, or unauthorised, the particulars of the expenditure must be reported to the Council.
- 12.17** The completeness of and amendments to the Irregular, Fruitless and Wasteful, and Unauthorised Expenditure Register must be reported to Council through the monthly In-year-monitoring Report.

- 12.18** The Accounting Officer should submit an Irregular, Fruitless and Wasteful, and Unauthorised Expenditure report, as well as the Irregular, Fruitless and Wasteful, and Unauthorised Expenditure registers to the Council on a quarterly basis.
- 12.19** The report mentioned in paragraph 12.18 must be signed by the Accounting Officer and the relevant director (or his or her delegate during his or her absence). If there is a nil return, the report should, nevertheless, be submitted for control purposes.
- 12.20** The Accounting Officer should use the reports and registers to update and review the Irregular, Fruitless and Wasteful, and Unauthorised Expenditure Registers for completeness and correctness.
- 12.24** Irregular, fruitless and wasteful, and unauthorised expenditure must be accounted for and disclosed in the annual financial statements, according to the applicable Accounting Standards and NT Guidelines.  
(Annexure A reflects the reporting requirements in a diagram)

### **13. Role of council committee**

The council may appoint a committee to investigate the recoverability of Unauthorized, Irregular, Fruitless and Wasteful Expenditure.

In terms of section 74 the Municipal Budget and Reporting Regulations contained in Government Notice 393 of 17 April, 2009, a council committee appointed to investigate the recoverability or otherwise of any unauthorised, irregular or fruitless and wasteful expenditure must consider –

- (13.1) the measures already taken to recover such expenditure;
- (13.2) the cost of the measures already taken to recover such expenditure;
- (13.3) the estimated cost and likely benefit of further measures that can be taken to recover such expenditure; and
- (13.4) submit a motivation explaining its recommendation to the council for a final decision.

The Accounting Officer must provide the committee concerned with such information as it may require for the purpose of conducting a proper investigation.

The aforesaid committee may only comprise councillors and should not include political office bearers of the municipality. At least 3 councillors are required to constitute a committee.

It should be noted that the council is required by resolution to certify that the expenditure concerned is considered irrecoverable and that it should be written off. This power may not be delegated by the council.

An audit committee established in terms of section 166 of the Act is not precluded from assisting the appointed committee with its deliberations.

### **14. Writing off of unauthorised, irregular, fruitless and wasteful expenditure is no excuse in criminal and disciplinary proceedings**

In terms of section 32 (5) of the Act, the writing off of any unauthorised, irregular or fruitless and wasteful expenditure as irrecoverable, is no excuse in criminal or disciplinary proceedings against a person charged with the commission of an offence or a breach of the Act relating to such unauthorised, irregular or fruitless and wasteful expenditure.

## **15. Liability of political office bearers for unauthorised expenditure**

Without limiting liability in terms of the common law or other legislation, a political office-bearer of the municipality is, in terms of section 32(1)(a) of the Act, liable for unauthorised expenditure if that office-bearer either knowingly or after having been advised by the accounting officer that the expenditure concerned is likely to result in unauthorised expenditure, instructed an official of the municipality to incur such expenditure.

The Act defines a "political office-bearer" as the speaker, mayor or a member of the executive committee of a municipality elected, designated or appointed in terms of a specific provision of the Municipal Structures Act, 1998.

## **16. Liability for unauthorised expenditure deliberately or negligently incurred**

Section 32 (1)(b)(c) and(d) of the Act provides that, without limiting liability in terms of the common law or other legislation:

- (16.1)** the accounting officer is liable for **unauthorised expenditure** deliberately or negligently incurred by him or her, subject to section 32 (3). The accounting officer accordingly incurs liability for unauthorised expenditure deliberately or negligently incurred unless he / she informs the council or the mayor, as the case may be, in writing that a decision which has been taken, if implemented, is likely to result in unauthorised expenditure;
- (16.2)** any political office-bearer or official of the municipality who deliberately (intentionally) or negligently (failed to take adequate care) committed, made or authorised an **irregular expenditure**, is liable for that expenditure; or
- (16.3)** any political office-bearer or official of the municipality who deliberately or negligently made or authorised a **fruitless and wasteful expenditure** is liable for that expenditure.

An "**official**" of the municipality has a wider meaning than an employee or staff member of the municipality and includes -

- an employee of a municipality;
- a person seconded to the municipality to work as a member of the staff of the municipality; or
- a person contracted by a municipality to work as a member of the staff of the municipality otherwise than as an employee.

## **17. Reporting and investigating unauthorised, irregular or fruitless and wasteful expenditure**

Section 32 (4) of the Act requires the accounting officer to promptly inform the Mayor, the MEC for local government and the Auditor-General, in writing, of –

- (17.1)** any unauthorised, irregular or fruitless and wasteful expenditure incurred by the municipality;
- (17.2)** whether any person is responsible or under investigation for such unauthorised, irregular or fruitless and wasteful expenditure; and
- (17.3)** the steps that have been taken –
  - (17.3.1)** to recover or rectify such expenditure; and

(17.3.2) to prevent a recurrence of such expenditure

## **18. Reporting of irregular expenditure, theft and fraud**

Section 32 (6) of the Act obliges the accounting officer to report to the South African Police Service all cases of alleged -

(18.1) irregular expenditure that constitute a criminal offence; and

(18.2) theft and fraud that occurred in the municipality.

The council must, in terms of section 32(7) of the Act and through the mayor, take all reasonable steps to ensure that all cases of irregular expenditure incurred as a result of a criminal offence, theft and fraud are reported to the South African Police Service if -

the charge is against the accounting officer; or

the accounting officer failed to comply with section 32(6) (referred to above) of the Act.

## **19. Criminal sanctions - councillors, senior managers and other officials**

Councillors and officials of the municipality are also subject to criminal sanctions if they:

| <b>Sect.</b> | <b>Offence</b>   |
|--------------|--|
| 79           | Deliberately or in a grossly negligent* way contravene or fail to comply with a condition of a delegation of power.  |
| 173(5)(a)    | Deliberately or in a grossly negligent way impede an accounting officer from complying with a provision of the Act.  |
| 173(5)(b)    | Deliberately or in a grossly negligent way give incorrect, untrue or misleading information material to an investment decision relating to borrowing by the municipality.  |
| 173(5)(b)    | Illegally withdraw money from a municipal bank account.  |
| 173(5)(d)    | Fail to disclose material information when the municipality borrows money.   |
| 173(5)(e)    | Interfere in the supply chain management system.   |
| 173(5)(f)    | Provide false or misleading information for the purposes of any document which must in terms of a requirement of the Act be submitted to the council, mayor or accounting officer, the Auditor-General, the National Treasury or be made public. |

\* Gross negligence is a conscious and voluntary disregard of the need to use reasonable care, which is likely to cause foreseeable grave injury or harm to persons, property, or both. It is conduct that is extreme when compared with ordinary negligence, which is a mere failure to exercise reasonable care.

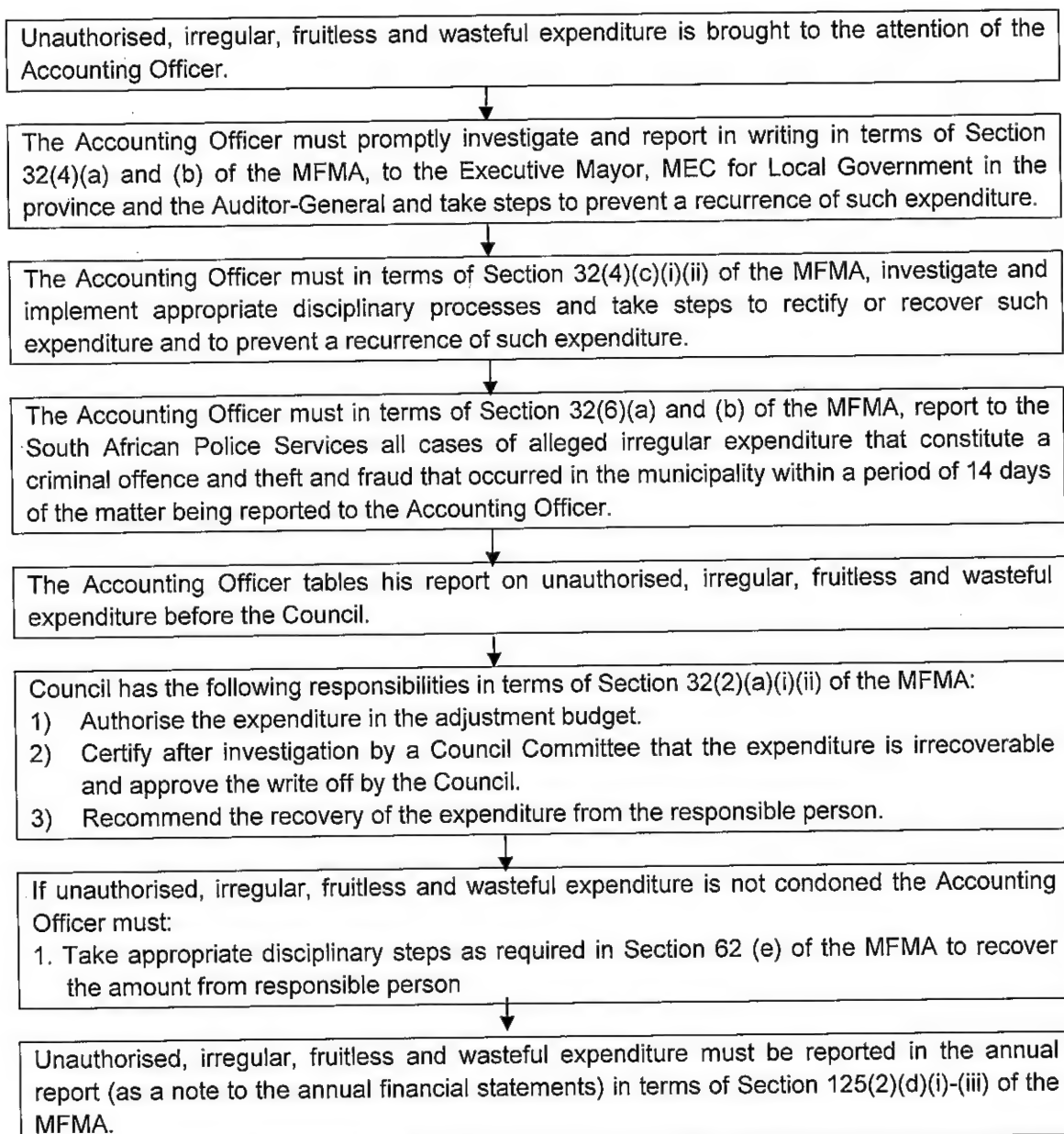
## **20. Civil liability of municipality, structures, office bearers and officials**

The Act exempts municipalities, their political structures, office-bearers or officials from civil liability for any loss or damage resulting from the exercise of any power or the performance of any function in terms of the Act, provided same was done in good faith. Without limiting liability in terms of the common law or other legislation, a municipality may recover from its political office bearers and officials, any loss or damage suffered by it because of their deliberate or negligent unlawful actions when performing a function of office.



**Reporting Requirements**

The following diagram provides guidance as to the reporting requirements regarding unauthorised, irregular, fruitless and wasteful expenditure:





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## **PETTY CASH POLICY**

**May 2017**





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## 1. OBJECTIVES

To comply with regulatory framework in terms of the relevant legislation.

## 2. PURPOSE

To ensure that the Municipality's Petty Cash System is managed in an accountable manner.

## 3. PETTY CASH CUSTODIAN

The petty cash custodian is situated in the office of the cashier in the Department of Finance and Corporate Services.

## 4. RESPONSIBILITIES OF THE PETTY CASH CUSTODIAN

It will be the responsibility of the petty cash custodian to ensure that this fund is used to cover only those expense reimbursements for which it is not possible, or is infeasible, to use normal purchasing methods. In addition, the custodian will ensure that fund use is consistent with the manner described in this document.

The custodian is responsible to perform a full reconciliation of the fund on a monthly basis which he/she will provide to the Senior Accountant (I & E.) A weekly report will be submitted to the Finance Manager for consideration at management meetings.

## 5. SECURITY OF PETTY CASH FUNDS

Cash and receipts for unreimbursed expenditure must be kept in a locked container such as a fire-proof file cabinet, safe, or other suitable device to which unauthorised access is difficult. The petty cash custodian is personally responsible for the cash which was specifically issued to him/her.

## 6. APPROVAL PROCESS

An employee purchasing items using petty cash funds does the following:

- Obtains prior approval form the Departmental Head or supervisor;
- Petty Cash will only be presented to the requester based on the official petty cash voucher, which must have the following completed:
  - the date of advance;
  - the amount of the advance;
  - a full description of expenditure;
  - account number to be debited;
  - the cost centre and line item;
  - the signature of the claimant; and
  - the signature of the authoriser.

Each time petty cash is given, the custodian must maintain a record of the above information.

- Obtains, when necessary, a petty cash advance from the petty cash custodian. The advance is provided to the employee only to purchase legitimate petty cash items.
- The custodian is responsible for following up to ensure that the employee returns any unused cash and/or receipts.
- Makes the purchase with the petty cash advance and obtains an itemized receipt or cash register sales slip.
- Presents the original sales receipt or cash register sales slip to the petty cash custodian. The receipt(s) must include:
  - description of the item(s)
  - date of purchase
  - place of purchase
  - itemized amount

- The petty cash receipt/s and/ or unused cash must be returned to the petty cash custodian as soon as possible, but no later than **three (3) working days** of issuing the petty cash.
- For officials who have received petty cash and are away from the office, must return the receipt/s and/or unused cash to the petty cash custodian as soon as possible, but no later than **three (3) working days** after their return to Head Office.

## 7. PETTY CASH PURCHASES

- As per the Supply Chain Management Policy, petty cash is up to and including an amount of R2 000 (VAT incl) per department and limited to R40 000 (VAT incl) per month per Directorate.
- For the purposes of this policy, the maximum amount of petty cash purchases is limited to R2 000 (VAT incl) per day per Directorate.
- Petty cash purchases between R1 001 (VAT incl) and R2 000 (VAT incl) must be authorised by Heads of Departments; and
- Purchases may not be split over two or more cash purchase claims.

## 8. REIMBURSEMENT FROM PETTY CASH FUNDS

- In certain instances, e.g. parking charges, toll fees, claim for reimbursement may be after the date of incurring the expense. Such claims must be authorised by the Head of the Department.
- A claim for reimbursement must be supported by an original tax invoice and receipt.
- The purpose of the expenditure should be noted and the receipt and invoice dated and attached to a petty cash voucher.
- The petty cash voucher must include:
  - the date of disbursement;
  - the amount of the disbursement;
  - a full description of expenditure;
  - account number to be debited;
  - the signature of the claimant; and
  - the signature of the authoriser.

- The petty cash voucher must be checked and the petty cash custodian must verify that the voucher has been appropriately authorised before handing over the cash to the claimant.

#### 9. SPECIFIC PETTY CASH PURCHASES DISALLOWED

Petty cash are available to purchase minor items when it would be otherwise impractical to purchase items through the usual purchasing methods.

Certain purchases are specifically excluded such as:

- Any purchases above R2 000 (VAT incl);
- Petty cash excludes all subsistence and travel claims which result in a taxable earnings from petty cash purchases which will be paid by the Payroll Section; and
- No fixed asset may be purchased by means of a petty cash transaction.



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# **ASSET MANAGEMENT**

**MAY 2017**

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## 1. INTRODUCTION

This policy document is provided to assist management and employees of Sarah Baartman District Municipality in implementing and maintaining consistent, effective and efficient fixed asset management principles. This policy document supersedes all previous fixed asset management policy instructions that have been issued.

This policy does not supersede, but only complements all other Municipal policies indirectly related to fixed asset management, such as municipal land valuations (Municipal Rates Policy); and the Supply Chain Management Policy.

## 2. DEFINITIONS

Every effort has been made to use definitions established through legislation, standards of account and other guidance on asset management, hence reference has been made to sources. Where definitions do not exist, terminology has been defined for the purposes of this Policy.

An **active market** is a market in which all the following conditions exist:

- (a) the items traded within the market are homogeneous;
- (b) willing buyers and sellers can normally be found at any time; and
- (c) prices are available to the public. (GRAP 102)

**Asset Custodian** is a person in any position or level in the organisation entrusted with the safeguarding and use as well as maintaining any specific asset.

**Asset Life-Cycle** is the cycle of activities that an asset goes through – including planning, design, initial acquisition and/or construction, cycles of operation and maintenance and capital renewal, and finally disposal.

**Asset Management** is a broad function and includes a structured process of decision-making, planning and control over the acquisition, use, safeguarding and disposal of assets to maximise their service delivery potential and benefits, and to minimize their related risks and costs over their entire lives.

**Asset Controller** is any official who has been delegated responsibility and accountability for the control, usage, physical and financial management of the municipality's assets in accordance with the entity's standards, policies, procedures and relevant guidelines.

**Asset Register** is a record of information on each asset that supports the effective financial and technical management of the assets, and meets statutory requirement/s.

The asset register should also facilitate proper financial reporting and is ultimately the responsibility of the Chief Financial Officer (CFO).

**Assets** are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity. (GRAP 1)

**Capital assets** are all assets with a life cycle of greater than one year and above the capitalization threshold (where applicable) that is owned by the municipality. For example, this would include property, plant and equipment (infrastructure network, furniture, motor vehicles, computer equipment, etc.), intangible assets, and investment property. The words **capital assets** in this Policy are synonymously used with the words **fixed assets**.

**Capital budget** is the plan of proposed capital expenditure and the means for financing assets, and the timing thereof.

**Capital budgeting** is the process of choosing investment projects by considering the present value of cash flows and deciding how to raise the funds required for the investment.

**Capital commitment** is an undertaking in terms of a contract or of a policy decision to place funds in expansion or replacement of fixed assets.

**Capital expenditure** is expenditure to acquire or improve fixed assets.

**Capitalisation threshold** is the value above which assets are treated as capital assets and entered into an asset register from which reporting in the financial statements (specially the Statement of Financial Position) is extracted.

**Carrying Amount** is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses. (GRAP 17)

**Community assets** are any asset that contributes to the community's wellbeing. Examples are parks, libraries and fire stations.

**Component** is a part of an asset with a significantly different useful life and significant cost in relation to the rest of the main asset. Component accounting requires that each such part should be separately accounted for and is treated separately for depreciation, recognition and derecognition purposes. It is also referred to as separately depreciable parts.

**Cost of an Asset** is the amount of cash or cash equivalent/s paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction. The cost of acquisition will include all expenditure needed to bring the asset to the condition and position for its intended use which usually includes:

- Purchase cost (less any discounts given)
- Delivery cost
- Installation cost
- Professional fees, e.g. engineering fees
- Site development fees

**Current Replacement Cost** is the cost of replacing an existing asset with a modern asset of equivalent capacity. (DPLG Guidelines)

**Depreciable Amount** is the cost of an asset, or other amount substituted for cost, less its residual value. (GRAP 17)

**Depreciated Replacement Cost** is a measure of the current value of an asset based on its current replacement cost less an allowance for deterioration of condition (based on the fraction of remaining useful life/expected useful life).

**Depreciation** is the systematic allocation of the depreciable amount of an asset over its useful life. (GRAP 17)

**Economic Life** is either:

- a) The period over which an asset is expected to yield economic benefits or service potential to one or more users, or
- b) The number of production or similar units expected to be obtained from the asset by one or more users. (GRAP 13)

**Enhancement/Rehabilitation** is an improvement or augmentation of an existing asset (including separately depreciable parts) beyond its originally recognised service potential, for example, remaining useful life, capacity, quality, and functionality.

**Fair Value** is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. (GRAP 17)

**Financial fixed assets register** will be that register controlled by the CFO, specifically used for the administration of assets as prescribed by various GRAP standards.

**Financially Sustainable**, in relation to the provision of a municipal service, means the provision of a municipal service in a manner aimed at ensuring that the financing of that service from internal and external sources, including budgeted income, grants and subsidies for the service, is sufficient to cover costs.

**Fixed asset** is an asset as defined in GRAP 17 as a tangible item of property, plant or equipment held by a municipality for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and which is expected to be used during more than one reporting period (financial year).

A fixed asset is thus an asset, **either movable or immovable**, under the **control** of the municipality, that arose from **past transactions or events** and from which the municipality reasonably expects to **derive economic benefit, or reasonably expects to use in service delivery, over a period extending beyond one financial year**.

Assets include land, buildings engineering works, machinery, equipment, vehicles, office furniture and equipment, but would exclude minor items that are generally regarded as expendable, even though their useful lives may extend beyond one year, e.g. pens, files, note pads and small tools.

An asset held under a finance lease, shall be recognized as a fixed asset, as the municipality has control over such an asset even though it does not own the asset.

**Generally Accepted Municipal Accounting Practice (GAMAP)**: These accounting standards are applicable to municipalities. These standards will be phased out as the GRAP standards become effective.

**Generally Recognised Accounting Practice (GRAP)** means an accounting practice complying in material respects with standards issued by the Accounting Standards Board. (PFMA section 1)

**Heritage assets** are culturally significant resources. Examples are works of art, historical buildings and statues.

**Infrastructure assets** means assets that usually display some or all of the following characteristics

- (a) They are part of a system or network;
- (b) They are specialised in nature and do not have alternative uses;
- (c) They are immovable; and
- (d) They may be subject to constraints on disposal. (GRAP 17)

Examples of infrastructure assets include road networks, sewer systems, water and power supply systems and communication networks. Movable assets such as vehicles that are directly used in the delivery of the service (such as waste removal trucks can also be included as part of infrastructure).

**Investment properties** are properties that are acquired for economic and capital gains. Examples are office parks and undeveloped land acquired for the purpose of resale in future years.

**Maintenance/Refurbishment** to an asset will restore or maintain the originally assessed future economic benefits or service potential that an entity can expect from an asset and is necessary for the planned life to be achieved.

**Material** omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The size or nature of the information item, or a combination of both, could be the determining factor. (GRAP 1)

**Modern Equivalent Asset** is an asset that replicates the existing asset with the most cost-effective asset performing the same level of service. This includes improvements in technology that may change the nature, life and value of an asset.

**Municipal Manager** is the person defined as the Accounting Officer of a municipality (MFMA S60). For more information on the accounting officer/municipal manager refer to chapter 8 of the MFMA.

**Property, Plant and Equipment (PPE)** is tangible items that:

- (a) Are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- (b) Are expected to be used during more than one reporting period. (GRAP 17)

**Recognition** is the process of incorporating in the statement of financial position or statement of financial performance, an item that meets the definition of an element (of financial statements) and satisfies the criteria for recognition, namely:

- It is probable that any future economic benefit or service potential associated with the item will flow to or from the entity and
- The item has a cost or value that can be measured reliably. (Framework for the Preparation and Presentation of Financial Statements paragraph 109 and 110)

**Recoverable Amount** is the higher of a cash-generating asset's or unit's net selling price and its value in use.

**Recoverable Service Amount** is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use. (GRAP 17)

**Rehabilitation/Enhancement** is an improvement or augmentation of an existing asset (including separately depreciable parts) beyond its originally recognised service potential, for example, remaining useful life, capacity, quality, and functionality.

**Refurbishment/Maintenance** to an asset will restore or maintain the originally assessed future economic benefits or service potential that an entity can expect from an asset and is necessary for the planned life to be achieved.

**Remaining Useful Life** is the time remaining (of the total estimated useful life) until an asset ceases to provide the required service level or economic usefulness.

**Renewal** is the work required to replace/enhance/rehabilitate an asset. Expenses on renewal works are considered capital expenditure.

**Reproduction Cost** is the cost of reproducing the asset in its present physical form (substantially the same materials and design).

The **Residual Value** of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. (GRAP 17)

**Senior Manager** is a manager referred to in section 56 of the Municipal Systems Act (MSA) as someone reporting directly to the municipal manager. (MFMA paragraph 1)

**Service Potential** is a tangible capital asset's output or service capacity, normally determined by reference to attributes such as physical output capacity, quality of output, associated operating costs and useful life.

**Useful Life** is:

- (a) The period over which an asset is expected to be available for use by an entity, or
- (b) The number or production of similar units expected to be obtained from the asset by an entity. (GRAP 17)

The useful life of an asset is entity specific.

**System** in this Policy refers to either an information technology programme or a manual business process, but normally refers to both simultaneously.

### **3. OBJECTIVES AND SCOPE**

The objective of this policy is to prescribe a specific framework and related procedures, but if not specific, then, at least the broad framework, for the management of fixed assets. Thus, as prescribed by, Section 63 of the MFMA; Local Government Capital Asset Management Guideline (NT), the relevant GRAP standards; and the International Infrastructure Maintenance Manual (co-authored by IMESA).

The scope of this policy is to ensure that the following key elements of fixed asset management are addressed:

- Safeguarding assets;
- Establishing and maintaining a system for the planned maintenance of assets;
- Establishing and maintaining of fixed assets registers;
- Establishing and maintaining a management, accounting, information technology and internal control system that accounts for the assets of the Municipality;
- Asset valuation principles in accordance with GRAP; and
- Clarifying responsibilities and accountabilities for the asset management process.

The system used for maintenance management of assets for all departments are not completely integrated with the financial asset management system.



#### **4. RESPONSIBILITY AND DELEGATIONS**

The Accounting Officer of the Municipality (the Municipal Manager) shall be the principal custodian of all the Municipality's fixed assets, and shall be accountable for ensuring that the Fixed Asset Management Policy is diligently applied and adhered to.

For the purposes of this Policy the Accounting Officer has delegated the responsibilities placed on him/her to the Senior Manager's of the respective departments.

This delegation implies that all Senior Managers should ensure that:

- The Municipality has and maintains a management, accounting and information system that accounts for the assets of the municipality;
- The Municipality's assets are valued in accordance with standards of generally recognised accounting practice;
- The Municipality has and maintains a system of internal control of assets, including an asset register; and
- Senior Managers and their teams comply with this policy.

The Senior Managers may delegate or otherwise assign responsibility for performing these functions, but will remain accountable for ensuring that these activities are performed.

Managers delegated this responsibility should ensure that:

- Appropriate systems of physical management and control are established and carried out for all assets;
- The Municipal resources assigned to them are utilised effectively, efficiently, economically and transparently;
- Proper accounting processes and procedures are implemented in conformity with the municipal financial policies and the MFMA to produce reliable data for inclusion in the municipal asset register;
- Any unauthorised, irregular, fruitless or wasteful utilisation and losses resulting from criminal or negligent conduct are prevented;
- The asset management systems, processes and control can provide an accurate, reliable and up-to-date account of assets under their control;
- They are able to manage the asset plans, budgets, purchasing,

maintenance and disposal decisions and justify that they optimally achieve the municipality's strategic objectives;

- Manage the assets' life-cycle transactions to ensure that they comply with the plans and legislative and municipal requirements.

The Chief Financial Officer as one of the Senior Managers of the Municipality, shall be accountable for the **financial fixed asset register** of the Municipality, and shall ensure that a complete, accurate and up-to-date fixed asset register is maintained. For the purpose of this Policy the responsibility of this function is delegated to the Manager responsible for asset management in the Finance Department.

The Asset Management Section of the Finance Department will be responsible to substantiate the assets for the Annual Financial Statements and participate in the process of physical control to achieve accurate and reliable asset information with regards to purchases, write-offs, transfers, donations and locations.

In terms of Section 14 (4) of the MFMA, all Senior Managers of Departments and delegated managers will approve/recommend all asset movements, which relate to:

- Writing-off of assets no longer providing a basic level of municipal service (limited to the purchase cost of R10 000);
- Transferring of assets (only movable fixed assets);
- Reporting losses of assets to Council, only for assets of which purchase cost is in excess of R2000.

The CFO shall ensure:

- a full assets verification, every year;
- That there are mutually agreed upon procedures (procedures endorsed by all affected officials) and internal controls, in place for the effective financial management of the financial assets register.

## **5. FINANCIAL MANAGEMENT OF FIXED ASSETS**

### **5.1 CLASSIFICATION OF FIXED ASSETS**

There are essentially five major divisions of the fixed assets register namely;

- Property Plant and Equipment;
- Investment Property;
- Inventory Assets;
- Heritage Assets; and
- Intangible Assets.

The CFO shall ensure that all fixed assets are classified under the following headings in the fixed assets register, and heads of departments (Senior Managers) shall in writing provide the CFO with such information or assistance as is required to compile a proper classification.

The detailed breakdown of this classification is contained in Annexure A of the Policy.

#### **5.1.1 Property Plant and Equipment (GRAP 17)**

Property Plant and Equipment (PPE) represents a major portion of the asset base of the Municipality and is therefore significant in the presentation of its financial position (balance sheet).

PPE are held for use during more than one accounting period, used for the production of goods or supply of services, held for rental or other social purposes and administrative purposes.

#### **5.1.2 Inventory Assets (GRAP 12)**

Inventories can basically be described as assets held for sale in the ordinary course of business or in the form of supplies or consumables to be consumed during the service delivery process.

Inventories include goods purchased and held for resale such as land, refuse bags, water and other property, as well as materials and supplies to be utilised during the delivery of services, e.g. water in the pipes, coal and fuel. Water will be regarded as inventory when the municipality purchases water in bulk with the intention to resell it to the consumers or to use it internally.

Inventory also includes goods held for distribution to others at no cost or for a nominal value, e.g. medicines.

The decision whether a certain item should be classified as inventory depends on the purpose or use to the municipality. Property is recognised as inventory when it is acquired for the specific purpose of being traded or it is being developed with a view to sell for example township developments. Conversely, a decision to sell property previously used as office buildings does not qualify the office buildings to be recognised as inventory, as the property was not held specifically for the purpose of resale.

### **5.1.3 Investment Property (GRAP 166)**

Investment property is land and/or buildings (or part of a building) held to earn rentals and/or capital appreciation and is distinguished from property, plant and equipment that are occupied and used by the municipality.

Investment property is also not land and/or buildings held for sale in the ordinary course of business. As the definition implies, the intention is to earn a return on the investment made in the asset and to benefit from capital appreciation. Houses to employees, hostels, etc will not qualify as investment property as the primary objective of these facilities are to provide a service, e.g. housing, sport and recreation rather than to earn rental revenue or capital appreciation (or both).

In general, investment property will entail property leased under an operating lease to a lessee, where the Municipality acts as lessor. Property leased under a finance lease will however not qualify as investment property (as the property is “sold” to the lessee).

A property constructed by the Municipality that will be held as an investment property should not be treated as such until it is ready for its intended purpose (i.e. until it meets the definition of investment property). Until such time, it should be accounted for according to GRAP 17. Similarly, property being constructed on behalf of a third party does not constitute investment property and should be accounted for as a construction contract in terms of GRAP 11. Properties held for sale in the ordinary course of business should be recognised as inventory and accounted for in terms of GRAP 12.

It should be clear from the above that the classification of land and/or buildings (or part of a building) as investment property depends on the *intention* of management and therefore requires judgement to determine whether a property qualifies as investment property. Criteria therefore have to be developed to ensure that judgement is exercised consistently.

In practice, the classification of an asset as either PPE or investment property is complicated when the asset is used both for investment and administrative purposes. Separate accounting can only be applied if it is possible for the portions to be sold separately or leased out separately under a finance lease.

For example, the Municipality might own a four storey office building and only use the bottom two floors for its administrative function, whilst renting out the upper two floors. If the municipality could sell floors separately or lease them out on a finance lease, it should treat the lower half of the building as PPE (owner occupied property) and the upper half as investment property.

Where the portions cannot be sold or leased out separately, the property is only classified as investment property if an insignificant portion is used for service delivery or administrative purposes. It will not be permissible to apportion the property between an “investment” and an “owner occupied” element.

Either the whole building is treated as investment property or as owner occupied property. There is no guidance in the standard as to what constitutes a “insignificant” portion, this is left to the discretion of management based on the specific circumstances of each transaction.

Property that the Municipality owns and which is occupied by a municipal entity (or vice versa) cannot be classified as investment property in the consolidated financial statements. From the perspective of the economic entity, the property is owner occupied and should be treated as PPE.

|   | Examples of investment property   |
|---|---|
| <ul style="list-style-type: none"> <li>• Property held for long-term capital appreciation</li> <li>• Property leased out by another party under an operating lease. Vacant property held for the purpose of leasing in the future ; <b>and</b></li> <li>• Land and buildings held for undetermined use</li> </ul> | <ul style="list-style-type: none"> <li>• <b>Property that is leased out to another party under a finance lease;</b></li> <li>• Property held for sale in the ordinary course of business</li> <li>• Property that is owner occupied</li> <li>• Property that is in the process of being constructed or developed</li> </ul> |

#### **5.1.4 Heritage Assets (GRAP 17 para 6)**

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations. A heritage asset shall be recognised as an asset if, and only if:

- (a) It is probable that future economic benefits or service potential associated with the asset will flow to the Municipality; and
- (b) The cost or fair value of the asset can be measured reliably.

For the heritage asset to be recognised in accordance with the criteria in (a) and (b) above, the heritage asset needs to be controlled by the Municipality as a result of past events. Even though the Municipality may be restricted from disposing of a heritage asset based on a stipulation imposed by, for example, a trust, statute or law, or from the transferor's stipulations, the heritage asset is still controlled by the Municipality when it is able to generate future economic benefits or service potential from the asset. Accordingly, the Municipality recognizes the heritage asset when the recognition criteria in paragraph (a) and (b) above are met.

Future economic benefits or service potential flowing from a heritage asset may include revenue, for example an entrance fee charged by a museum. The revenue generated by the entity under such circumstances is normally insignificant compared to the operating costs of the museum and will not result in accounting for the heritage asset as an investment property. The revenue generated is rather used towards the maintenance of the heritage asset. The heritage asset should, however, be accounted for in terms of the Grap Standards as the heritage value attached to the specific asset constitutes the heritage asset's service potential.

In some instances, items of property, plant and equipment may be required to safeguard the heritage assets. For example, a museum may maintain a constant room temperature to safeguard a manuscript collection using a specialised air conditioning system. Such items of property, plant and equipment are recognised as assets in terms of GRAP 17 on *Property, Plant and Equipment* and not as part of the cost of the heritage asset.

#### **5.1.5 Intangible Assets (GRAP 102)**

An Intangible asset can be described as an asset that meets all the definition requirements of fixed assets (control, past event, future benefit), but lack physical form.

There are many forms of intangible assets, however those specific to the Municipality are:

- Capitalised Development Costs;
- Computer Software; and
- Rights

## **5.2 FINANCIAL FIXED ASSET REGISTER**

The financial fixed asset register shall be maintained in the format determined by generally recognized accounting practice (GRAP) and any other accounting requirements which may be prescribed. The fixed asset register shall reflect the following information:

- a brief but meaningful description of each asset;
- the date on which the asset was acquired or brought into use;
- the location of the asset;
- the department(s) or vote(s) within which the assets will be used;
- the title deed number, in the case of fixed property;
- the stand number, in the case of fixed property;
- where applicable, the identification number;
- the original cost, or the revalued amount determined or the fair value if no costs are available;
- the (last) revaluation date of the fixed assets subject to revaluation;
- the revalued value of such fixed assets;
- who did the (last) revaluation;
- accumulated depreciation to date;
- the depreciation charge for the current financial year;
- the carrying value of the asset;
- the method and rate of depreciation;
- impairment losses incurred during the financial year (and the reversal of such losses, where applicable);
- the source of financing;
- the current insurance arrangements;
- whether the asset is required to perform basic municipal services;
- whether the asset has been used to secure any debt, and if so the nature and duration of such security arrangements;
- the date on which the asset is disposed of;
- the disposal price;
- The date on which the asset is retired from use, if not disposed of.

A fixed asset shall be capitalised, that is, recorded in the fixed assets register on invoice date.

A fixed asset shall remain in the fixed assets register for as long as it is in physical existence. The fact that a fixed asset has been fully depreciated shall not in itself be a reason for writing-off such an asset.

### **5.2.1 Structure of the Asset Register**

The capitalization amount of R 2000.00 is applied as a cut off limit in this document. This amount is to be applied per item purchased. Items below R2000.00 will be considered in terms of their nature and may be capitalized in specific situations.

#### **5.2.1.1 The Capital Register**

The purpose of this register is to record and maintain all capital assets in excess of R 2000.00, exclusive of VAT. Categories within the FAR can be explained as follows. Information regarding the value of capital assets, acquisitions, write-offs and sources of financing are disclosed in the financial statements.

#### **• Property Plant and Equipment**

- Land
- Buildings
- Motor vehicles
- Furniture and fittings
- Office Equipment
- Computer equipment
- Bins and Containers
- Electricity infrastructure
- Specialised vehicles
- Specialised plant and equipment
- Street lighting

#### **• Investment Property**

- Land
- Buildings

#### **• Intangible assets**

- Computer equipment



## **5.3 CAPITALIZATION CRITERIA**

### **5.3.1 Material Value**

Except in cases where a department considers an item to be capitalized for a specific reason no item with an initial cost or fair value of less than R2 000 (two thousand rand) – or such other amount as the council of the municipality may from time to time determine on the recommendation of the council – shall be recognized as a fixed asset. If the item has a cost or fair value lower than this capitalisation benchmark, it shall be treated as an ordinary operating expense.

Every head of department or section shall, for any item with a value below R2000 (two thousand rand) and with an estimated useful life of more than one year consider appropriateness for capitalisation.

Every head of department shall ensure that the existence of items recorded is verified from time to time, but in any event at least once annually, and any amendments which are made are supported by proper documentation for audit purposes.

### **5.3.2 Intangible Items**

No intangible item shall be recognized as a fixed asset, except where the CFO, acting in compliance with the criteria set out in GRAP 102, recognise such asset as an intangible asset.

### **5.3.3 Reinstatement, Maintenance and Other Expenses**

Only expenses incurred in the enhancement of fixed assets (in the form of improved or increased services or benefits flowing from the use of such asset) or, in the material extension of the useful operating life of a fixed asset, shall such expenses be capitalised. (Material extension of useful life must be read literally i.e. life beyond what was the intended useful life when the asset was originally capitalised).

Expenses incurred in the maintenance or reinstatement of a fixed asset shall be considered as operating expenses incurred in ensuring that the useful operating life of the asset concerned is attained, and shall not be capitalised, irrespective of the quantum of the expenses concerned.

Expenses that are reasonably ancillary to the bringing into operation of a fixed asset may be capitalised as part of such fixed asset. Such expenses may include but need not be limited to import duties, forward cover costs, transportation costs, and installation, assembly and communication costs.

#### **5.4 PRE-ACQUISITION PLANNING AND REPORTING**

As a rule, **planning must take place for all acquisitions**, regardless of whether the acquisition is capitalised or not.

In addition to the normal planning, this section is specifically directed for asset acquisitions that require a business case due to the positive and negative influences such assets have on **social; economic** and **environmental** progress, i.e. **sustainability**. Just as the quality of the community's existence in the Municipality, which cannot solely be measured by the strength of economics in the local economy (per capita income), but instead by the value of all three elements of progress collectively. This definition also applies to the business case when a material and influential fixed asset acquisition is envisaged.

This business case will only be required on certain assets identified during the budget process.

Before these identified fixed assets are acquired, the respective department requiring the asset must adequately demonstrate to Council:

- That the asset is identifiable in the integrated development plan and the respective multi year budgets;
- That there is a clear, social/economic/environmental, business case, motivating the asset acquisition;
- That all projected capital and operational costs have been identified over all the financial years that such asset will influence municipal service delivery;
- That future income and tariff implications have been identified;
- That the physical and financial stewardship of that asset through all stages in its life including acquisition, installation, maintenance, operations, disposal and rehabilitation are considered; and
- Alternatives to this asset purchase.

## **5.5 APPROVAL TO ACQUIRE PPE**

Money can only be spent on a capital project if:

- The Capital and related Operating expenses have been identified and recorded in the Municipality's Integrated Development Plan.
- The Capital and related Operating expenses have been appropriated in the Municipality's Multi Year Budget;
- Evidence of planning is evident; and
- This confirms that funding is available for that specific project. It cannot be assumed by Departments that funding is in place simply because of a budget appropriation.

## **5.6 FUNDING OF FIXED ASSETS**

Within the municipality's ongoing financial, legislative and administrative capacity, the municipality will establish and maintain the funding strategies that optimize the Municipality's ability to achieve its strategic objectives as stated in the integrated development plan.

The acquisition of assets will not be funded over a period longer than the useful life of that asset. Type of funding may comprise any of the following:

- Borrowing;
  - Long term
  - Short term
- Grants and subsidies;
- GRAP permitted reserves;
- Public contributions; and
- Income.

## 5.7 FINANCIAL DISCLOSURE

The financial statements will disclose, in respect of each class of property, plant and equipment classified under the categories of infrastructure, community, heritage, investment properties and other assets:

- (a) The measurement bases used for determining the gross carrying amount and when more than one basis has been used, the gross carrying amount for that basis in each category should be disclosed;
- (b) The depreciation methods used;
- (c) The useful lives of the depreciation rates used;
- (d) Depreciation charged in arriving at net surplus or deficit for the period;
- (e) The gross carrying amount and the accumulated depreciation at the beginning and the end of the period; and
- (f) A reconciliation of the carrying amount at the beginning and end of the period showing:
  - (i) Additions;
  - (ii) Disposal;
  - (iii) Acquisition through business combinations;
  - (iv) Increases or the decreases resulting from revaluations;
  - (v) Deductions in carrying amount;
  - (vi) Amounts written back;
  - (vii) Depreciation;
  - (viii) Other movements.

The Annual Financial Statements will also disclose

- (a) Whether or not, in determining the recoverable number of items of property, plant and equipment, expected future cash flows have been discounted to their present values;
- (b) The existence and restrictions on title and property, plant and equipment pledged as security for liabilities;
- (c) The accounting policy for restoration costs relating to items of property, plant and equipment;
- (d) The amount of expenditures on account of property, plant and equipment in the course of construction; and
- (e) The amount of commitments for the acquisition of property, plant and equipment.

When items of property are stated at revalued amounts, the financial statements will disclose:

- (a) The basis used to revalue the assets;
- (b) The effective date of revaluation;
- (c) Whether an independent value was involved;
- (d) The nature of any indices used to determine replacement cost;
- (e) The carrying amount of each class of property, plant and equipment that would have been included in the financial statements had the assets been carried at cost less depreciation;
- (f) The revaluation surplus, detailing the movement for the period; and
- (g) The portion of the depreciation charge relating to the revaluation.

## **5.8 ACCOUNTING FOR FIXED ASSETS**

Proper accounting and disclosure for capital assets will ensure better financial management, proper control and greater efficiency in the use of the Municipality's assets.

### **5.8.1 Recognition of Assets**

An asset is recognised when it is probable that the future economic benefits or potential service provision will flow to Council and the asset has a cost or value that can be reliably measured.

## **HERITAGE ASSETS**

If no original costs or fair values are available in the case of one or more or all heritage assets, the CFO may, if it is believed that the determination of a fair value for the assets in question will be a laborious or expensive undertaking, record such asset or assets in the fixed asset register without an indication of the costs or fair value concerned. For balance sheet purposes, the existence of such heritage assets shall be disclosed by means of an appropriate note.

## **DONATED ASSETS**

Where a fixed asset is donated to the municipality, or a fixed asset is acquired by means of an exchange of assets between the municipality and one or more

other parties, the asset concerned shall be recorded in the fixed asset register at its fair value, as determined by the CFO.

### **5.8.2 Carrying Value of Fixed Assets**

All fixed assets shall be carried in the fixed asset register, and appropriately recorded in the annual financial statements, at their original cost or fair value less any accumulated depreciation. The only exceptions to this rule shall be re-valued assets and heritage assets in respect of which no value is recorded in the fixed asset register.

### **5.8.3 Control Accounts**

The Municipality must maintain separate control accounts in the general ledger for depreciation.

### **5.8.4 Additions**

All costs incurred in the acquisition of new fixed assets will be capitalised as part of the cost of the asset and recorded in the same account.

### **5.8.5 Purchase of Fixed Assets**

The cost of the asset purchase should be debited to the respective asset accounts after it has been authorized for purchase in accordance with the Delegation of Powers and the Supply Chain Management Policy guidelines.

### **5.8.6 Depreciation**

All fixed assets, except land and heritage assets, shall be depreciated – or amortized in the case of intangible assets. Depreciation may be defined as the monetary quantification of the extent to which a fixed asset is used or consumed in the provision of economic benefits or the delivery of services. Depreciation shall generally take the form of an expense both calculated and debited on an annual basis against the appropriate line item in the department or vote in which the asset is used or consumed. The charge will be calculated based on the estimated useful life of the asset. A norm has been established by council and is contained in Annexure A.

However, depreciation shall initially be calculated from the day following the day in which a fixed asset is acquired or – in the case of construction works and plant and machinery – the day following the day in which the fixed asset is brought into use, until the end of the financial year. Thereafter, depreciation charges shall be calculated annually. The CFO shall ensure that reasonable budgetary provision is made annually for the depreciation of all applicable fixed

assets controlled or used by the department in question or expected to be so controlled or used during the ensuing financial year.

After each depreciation run, a fixed asset report must be printed stating the following:

The following entries must be processed:

- Debit -the relevant depreciation amounts in the operating accounts.
- Credit -the relevant accumulated depreciation accounts.

## **RATE OF DEPRECIATION**

The CFO shall assign a useful operating life to each depreciable asset recorded on the municipality's fixed asset register in accordance with Annexure A.

In the case of a fixed asset not listed in this annexure, the CFO in conjunction with the respective asset manager who is directly responsible for the use of such asset, shall determine a useful operating life.

## **METHOD OF DEPRECIATION**

The CFO shall depreciate all depreciable assets on the straight-line method of depreciation over the assigned useful operating life of the asset in question in accordance with Annexure A.

### **5.8.7 Sale and the Scrapping of Fixed Assets**

At the outset no fixed assets can be sold or scrapped unless approved by Council in terms of Section 14 of the MFMA. The process here is elaborated on more clearly under the section of this Policy dealing with "procedures".

Whenever a fixed asset item is sold or scrapped, depreciation will be calculated at date of sale.

The following entries need to be processed in the general ledger whenever an asset is scrapped:

#### **ENTRY AMOUNT**

Credit: fixed asset account with cost price of the asset written off.

Debit: accumulated depreciation amount of accumulated depreciation

## **ACCOUNT FOR ASSETS**

Debit: loss on donation account with the difference between the cost price and the up to date accumulated depreciation:

**If the asset was sold, the profit/loss on the transaction needs to be calculated and recorded against the Profit/ Loss on disposal account.**

The following entries need to be made in the general ledger.

### **ENTRY AMOUNT**

With the amount the asset was sold for:

- Debit: Bank/ debtor
- Credit: Asset Account

With the total Accumulated Depreciation amount:

- Debit: Accumulated Depreciation Account
- Credit: Asset Account

With the calculated profit or loss amount:

- Debit/ Credit: Asset Account
- Debit/ Credit: Profit/ Loss on Disposal Account

### **5.8.8 Financial Controls**

The Financial Fixed Asset Register must be reconciled with the following General Ledger accounts on an annual basis.

- Fixed assets accounts;
- Accumulated depreciation accounts; and
- Depreciation accounts.

## **5.9 SAFEKEEPING OF ASSETS AND INTERNAL CONTROL**

Every Senior Manager and their respective managers delegated with the responsibility of asset management shall ensure that there are proper controls and safeguards to ensure that assets:

- are protected against improper use;
- are adequately protected from loss and theft;
- are adequately protected from malicious and accidental damage; and are maintained to the extent necessary for optimal levels of effective , efficient and economic service delivery.



This implies that Senior Managers and their respective managers shall ensure that administrative processes and internal controls are in place to implement sound asset safekeeping and that the asset identification system approved for the Municipality is scrupulously applied in respect of all fixed assets controlled or used by the departments.

## **5.10 VALUATION OF ASSETS**

All assets shall be reflected at cost less accumulated depreciation. Only Municipal land and buildings will be subject to revaluation to fair value based on the re-evaluation done.

### **5.10.1 Land and Buildings**

All land and buildings recorded in the Municipality's fixed asset register shall be revalued annually. For consistency purposes, a Property Valuer will be appointed on a three year basis as regulated by the Supply Chain Management Principles.

The CFO shall adjust the carrying value of the land and buildings concerned to reflect in each instance the value of the fixed asset as recorded in the valuation, provided s/he is satisfied that such value reflects the fair value of the fixed asset concerned.

The CFO shall also, where applicable, create a revaluation reserve for each such fixed asset equal to the difference between the value as recorded in the valuation and the carrying value of the fixed asset before the adjustment in question. The fixed asset concerned shall, in the case of buildings, thereafter be depreciated on the basis of its revaluation amount, over its remaining useful operating life, and such increased depreciation expenses shall be budgeted for and debited against the appropriate line item in the department or vote controlling or using the fixed asset in question.

The CFO shall ensure that an amount equal to the difference between the new (enhanced) depreciation expense and the depreciation expenses determined in respect of such fixed asset before the revaluation in question, is transferred from the revaluation reserve to the municipality's appropriation account.

If the amount recorded on the valuation is less than the carrying value of the fixed asset recorded in the fixed asset register, the CFO shall adjust the carrying value of such asset by increasing the accumulated depreciation of the fixed asset in question by an amount sufficient to adjust the carrying value to the value as recorded in the valuation. Such additional depreciation expenses shall

form a charge, in the first instance, against the balance in any revaluation reserve previously created for such asset, and to the extent that such balance is insufficient to bear the charge concerned, an immediate additional charge against the department or vote controlling or using the asset in question. Revalued land and buildings shall be carried in the fixed assets register, and recorded in the annual financial statements, at their revalued amounts, less accumulated depreciation (in the case of buildings).

## **5.11 INSURANCE OF ASSETS**

The section of the MFMA relating to Asset Management (chapter 8 section 63(1)(a)) has been delegated by the accounting officer (Municipal Manager) to the CFO.

All administration relating to insurance cover and insurance claims will be done through the Department of the CFO.

## **5.12 ASSET LIVES AND DIMINUTION IN THE VALUE OF FIXED ASSETS**

Only the CFO may amend the useful operating life assigned to any fixed asset.

The CFO shall amend the useful operating life assigned to any fixed asset if it becomes known that such asset has been materially impaired or improperly maintained to such an extent that its useful operating life will not be attained, or any other event has occurred which materially affects the pattern in which the asset's economic benefits or service potential will be consumed.

If the value of a fixed asset has been diminished to such an extent that it has no, or a negligible further useful, operating life or value, such fixed asset shall be impaired/ scrapped in the financial year in which such diminution in value occurs.

Similarly, if a fixed asset has been lost, stolen or damaged beyond repair, it shall be impaired/ scrapped in the financial year in which such event occurs, and if the fixed asset has physically ceased to exist, it shall be written off the fixed asset register and the replacement treated as a new acquisition.

In all the before mentioned instances, the additional depreciation expenses shall be debited to the department or vote controlling or using the fixed asset in question. If any of the before mentioned events arise in the case of a normally non-depreciable fixed asset, and such fixed asset has been capitalised at a value other than a purely nominal value, such fixed asset shall be partially or fully

depreciated, as the case may be, as though it were an ordinary depreciable asset, and the department or vote controlling or using the fixed asset in question shall bear the full depreciation expenses concerned.

## **5.13 PROCEDURES**

In compliance with the principles and prescriptions of the Municipal Finance Management Act, the management of fixed assets needs to be accompanied by a sound administrative system, the principle framework of procedures of which is described hereunder. It is also an imperative that the implementation of these procedures is consistent with the Municipality's Supply Chain Management Policy.

### **5.13.1 General Requirements**

In order to appropriately record movement of items, the Financial Asset Management Section must be notified by the Supply Chain Management Department or department concerned with the movement of an item, **within 7 days** of any of the following possible movements:

- Purchases of all items with a life span of more than one year and a value in excess of R2000.00.
- Donations of all items
- Additions/Improvements
- Auctions
- Loss, damage or theft
- Transfers
- Land Sales

The Council shall ensure that the alienation of any fixed asset takes place in compliance with Section 14 of the Municipal Finance Management Act, 2003. The municipality will not transfer ownership as a result of a sale or other transaction or otherwise permanently dispose of a non-current asset needed to provide the minimum level of basic municipality services.

The Municipality shall transfer ownership or otherwise dispose of a noncurrent asset other than one contemplated above, but only after the Council, in a meeting open to the public, has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services, and has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.

The decision that a specific non-current asset is not needed to provide the minimum level of basic municipal services will not be reversed by the Municipality after that asset been sold, transferred or otherwise disposed of.

#### **5.13.2 Loss, Theft, Destruction or Impairment of Fixed Assets**

Every Departmental Head shall ensure that any incident of loss, theft, destruction, or material impairment of any fixed asset controlled or used by the department in question is promptly reported in writing to the CFO and – in cases of suspected theft or malicious damage – also to the South African Police Service.

#### **5.13.3 Disposal of Assets**

Every Senior Manager shall report in writing to the CFO by 31 January of each financial year on all fixed assets controlled or used by the department concerned who wish to alienate such assets. The CFO shall thereafter consolidate the requests received from the various departments, and shall promptly report such consolidated information to the Council or as prescribed in the Supply Chain Management Policy, as the case may be, recommending the process of alienation to be adopted.

Land and Buildings shall be auctioned at the reserved prevailing market prices as indicated by the valuers at the time of disposal.

The Asset transfer/ Disposal form (refer to Annexure B) must be submitted by the relevant senior manager for any asset which has to be disposed of, to the Financial Asset Management Section before the asset will be removed from the Financial Assets Register. Once the document has been received by the Financial Assets Management Section, such asset will be removed from the system before month end.

#### **5.13.4 Transfer of Assets**

The Senior Managers shall approve all asset movements, which relate to the transfer of assets from one department to the other. When a department transfers an asset or interdepartmentally, the Asset Transfer Form (refer to Annexure B) must be forwarded to the department receiving the asset (Annexure "B" being the Asset Transfer Form attached). A copy of this form is to be forwarded to the Financial Asset Management Section for the update of the Financial Assets Register.

#### **5.13.5 Writing off of Items**

All items to be written off must be approved by the Council after recommendation by the Accounting Officer. If approved, the disposal procedure will be followed in the system. The only reasons for writing off fixed assets, other than the alienation of such fixed assets, shall be the loss, theft, and destruction or material impairment of the fixed asset in question. In every instance where a not fully depreciated fixed asset is written off, the CFO shall immediately debit to such department or vote, impairment expenditure to the full carrying value of the asset concerned.

#### **5.13.6 Resignations**

At the resignation of an employee the applicable Manager or his/her duly delegated representative must complete the relevant asset form and forward it to the Human Resources Section.

This form is a statement that the asset items entrusted to the employee to execute his/her daily duties are in good order, or are transferred to another employee.

#### **5.13.7 Donations**

When a donation is received, the item will be recorded in the asset register at a value prescribed by the CFO. The responsible department must complete the asset form and submit this to the Financial Asset Management Section.

#### **5.13.8 Additions / Improvements**

Depending upon the type of addition or improvement to a specific asset the responsible department must notify the Financial Asset Management Section of the change in status. The asset will be recorded at its increased value on receipt of the required asset form from the responsible department.

When capital expenditure is incurred for any enhancement / improvement of an asset, the department shall complete the necessary form and forward it to the Financial Asset Management Section.

#### **5.13.9 Replacement Norms**

Assets are replaced as soon as the asset has no economic value / service potential to the municipality. Senior managers should annually identify possible replacement needs and inform the CFO of capital items to be included in the capital budget for approval.

Where assets are damaged to such extent that it can no longer be used and is needed in the daily operations of the municipality, the senior manager to which this asset relates will submit a report to council to request for an adjustment budget and approval to replace the said asset.

#### **5.13.10 Asset Verification Process for PPE**

Fixed asset verification will ensure that all new assets are bar-coded and created on the system. Every employee will be notified within 7 days in advance of the verification process. It will be the responsibility of the Financial Asset Management Section to organize and coordinate the stock taking process. A comprehensive stock taking process will take place annually.

#### **5.13.11 Office Furniture Lists**

Duplicate furniture lists on the document management system will be created / produced and handed to every employee assigned to an office or defined work place annually. The furniture lists will be verified by that specific employee and signed.

One furniture list will be handed to the Financial Asset Management Section and the other one will be attached to the back of the employee's office door or defined work place. If there are any inaccuracies on the list, it will immediately be rectified.

#### **5.13.12 Purchase of a New Asset**

All new assets will receive a bar code number and description before being captured to the Financial Assets Register. The CFO must ensure that appropriate procedures are in place to ensure that every asset is recorded appropriately in the Fixed Asset Register. It is the responsibility of each senior manager to ensure that the CFO is informed of any new assets purchased.

## **Annexure A**

| <b>Description</b>              | <b>Years</b> |
|---------------------------------|--------------|
| Buildings                       | 50           |
| Specialised vehicles            | 5 - 20       |
| Electricity                     | 5 - 30       |
| Motor vehicles                  | 5 - 10       |
| Water                           | 5 - 20       |
| Office equipment                | 2 - 10       |
| Sewerage                        | 15 - 20      |
| Furniture and fittings          | 7 - 15       |
| Bins and Containers             | 5 - 10       |
| Specialised plant and equipment | 5 - 15       |
| Computer Equipment              | 2 - 10       |

## **Annexure B**

### **Asset Transfer/ Disposal Form**

We need to recreate the form and split into:

Form A – Asset transfer form

Form B – Asset take on forms

Form C – Asset disposal form

Form D – Asset confirmation with regard to employee resignation





**Sarah Baartman**

DISTRICT MUNICIPALITY  
*Province of the Eastern Cape*

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*progress through development*

# **ENTERPRISE RISK MANAGEMENT POLICY**

**May 2017**



| Date          | Author                  | Revision      | Approval date | Description/ Amendments  |
|---------------|-------------------------|---------------|---------------|--|
| May 2015      | Asset & Risk Management | May 2016      | 27 May 2016   | None   |
| November 2015 | Asset & Risk Management | November 2016 |               | More comprehensive policy required and therefore new policy drafted. |
|               |                         |               |               |  |
|               |                         |               |               |  |
|               |                         |               |               |  |
|               |                         |               |               |  |

# ENTERPRISE RISK MANAGEMENT POLICY

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## 1. DEFINITIONS

In this policy, unless the context indicates otherwise,

*"Architecture"* means a framework that incorporates various interrelated and interdependent components into a risk management system;

*"Municipal Manager"* refers to the Accounting Officer as defined in terms of the Local Government: Municipal Finance Management Act 56 of 2003 in relation to a municipality;

*Council* refers to the council of the Sarah Baartman District Municipality as established in terms of section 18 of the Local Government: Municipal Structures Act 117 of 1998

*"Enterprise Risk Management"* means a process, affected by the Municipality and its entities, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the Municipality and its entities, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of its objectives;

*"Municipality"* means the Sarah Baartman District Municipality;

*"Risk"* means an event with a negative impact, which can prevent the achievement of strategic organisational objectives;

*"Risk appetite"* means the amount of risk which the Municipality is generally willing to accept in striving for value;

*"Risk assessment"* means the process of determining the probability, as well as the impact of the identified risk as a basis of determining how these risks should be managed;

*"Risk management"* means a method of identifying, analysing, assessing, treating, monitoring and communicating risks associated with any activity, function or process that will enable the Municipality to maximise opportunities and minimise losses;

*"Risk register"* means a record of all relevant information relating to the identification and management of risks;

*"Risk response"* means a set of actions – avoiding, accepting, reducing, or sharing risk – developed in order to mitigate the identified risks.

## 2. ENTERPRISE RISK MANAGEMENT POLICY STATEMENT

The *Municipal Manager* commits the *Municipality* to a process of risk management that is aligned to the principles of good corporate governance, as supported by the Municipal Finance Management Act 56 of 2003 (MFMA) and various other pieces of legislation applicable to local government.

Risk management is recognized as an integral part of responsible management and the *Municipality* therefore adopts a comprehensive approach to the management of risk. It is expected that all Directorates operations and processes will be subject to the Risk Management. It is the intention that these Directorates will work together in a consistent and integrated manner, with the overall objective of reducing risk, as far as reasonably practicable.

Effective risk management is imperative to the *Municipality* to fulfil its mandate, the service delivery expectations of the public and the performance expectations within the institution itself. The realization of the *Municipality's* strategic plan depends on the institution being able to take calculated risks in a way that does not jeopardize the direct interests of stakeholders. Sound management of risk will enable the *Municipality* to anticipate and respond to changes in its service delivery environment, as well as make informed decisions under conditions of uncertainty.

The *Municipality* therefore subscribes to the fundamental principles that all resources will be applied economically to ensure:

- (a) The highest standards of service delivery.
- (b) A management system containing the appropriate elements aimed at minimizing risks and costs in the interest of all stakeholders.
- (c) Education and training of all our staff to ensure continuous improvement in knowledge, skills and capabilities which facilitate consistent conformance to the stakeholders' expectations.
- (d) Maintaining an environment that promotes the right attitude and sensitivity towards internal and external stakeholder satisfaction.

An entity-wide approach to risk management will be adopted by the Municipality, which means that every key risk in each part of the Municipality will be included in a structured and systematic process of risk management. It is expected that the risk management processes will become embedded into the Municipality's systems and processes thus ensuring that our responses to risk remain current and dynamic.

All risk management efforts will be focused on supporting the Municipality's objectives. Equally, they must ensure compliance with relevant legislation and fulfil the expectations of employees and all stakeholders in terms of good corporate governance.

The effectiveness of our efforts to entrench a culture of risk management entity-wide rests entirely on the commitment of all political office bearers and municipal officials. Commitment to risk management is a sure expression of commitment to Batho Pele principles.

### **3. REGULATORY FRAMEWORK**

#### **3.1 Constitution of the Republic of South Africa, Act 108 of 1996 (Constitution)**

Section 195 of the Constitution emphasises the values and principles underpinning public administration, which include the efficient, economic and effective use of resources in the public sector.

Planning is very important in clarifying the intentions of Government in the medium term; facilitating the allocation of budgets according to priorities; monitoring results and enforcing accountability in the whole of Government. Embedded within this planning framework is an internal control and risk management framework that serves to ensure that public service organisations achieve their outcomes.

## **3.2 Public Service Regulations**

In addition to the constitutional provisions, the National Treasury's Public Sector Risk Management Framework provides for the implementation of an enterprise risk management framework for the entire public service.

## **3.3 Local Government: Municipal Finance Management Act 56 of 2003 (MFMA)**

The MFMA sets out the roles and responsibilities of the key stakeholders within the risk management process as follow:

### **3.3.1 Accounting Officer**

Section 62 of the MFMA requires that:

- (1) The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure-*
  - (c) that the municipality has and maintains effective, efficient and transparent systems-*
    - (i) of financial and risk management and internal control"*

### **3.3.2 Management, Risk Officer and Other Personnel**

In terms of section 78 management responsibilities are extended to all senior managers and other officials of municipalities. This implies that responsibility for risk management vests at all levels of management and personnel and is not limited to only the Municipal Manager, the Risk Management Unit or Internal Audit Division.

### **3.3.3 Internal Audit**

Section 165 of the MFMA requires that:

- "(2) The internal audit unit of a municipality or municipal entity must –*
  - (a) prepare a risk based audit plan and an internal audit program for each financial year;*
  - (b) advise the accounting officer and report to the audit committee on the implementation on the internal audit plan and matters relating to:*
    - (iv) risk and risk management."*

### **3.3.4 Audit Committee**

Section 166 (2) of the MFMA states:

- "(2) An audit committee is an independent advisory body which must–*
  - (a) advise the municipal council, the political office-bearers, the accounting officer and the management staff of the municipality, or the board of directors, the accounting officer and management staff of the municipal entity, on matters relating to -*
    - (ii) risk management."*

#### 4. POLICY PRINCIPLES

The policy will enable the Municipality to effectively deal with uncertainty and associated risk and opportunity to enhance the capacity to build value. Enterprise risk management encompasses:

- (a) ***Aligning risk appetite and strategy*** – Management considers the Municipality's risk appetite in evaluating strategic alternatives, setting related objectives, and developing mechanisms to manage related risks.
- (b) ***Enhancing risk response decisions*** – Enterprise risk management provides the rigor to identify and select among alternative risk responses – risk avoidance, reduction, sharing, and acceptance.
- (c) ***Reducing operational surprises and losses*** – The Municipality will gain enhanced capability to identify potential events and establish responses, reducing operational surprises and associated costs or losses.
- (d) ***Identifying and managing multiple and cross-enterprise risks*** – The Municipality faces a myriad of risks affecting different parts of the institution, and enterprise risk management facilitates effective responses to the interrelated impacts, and integrated responses to multiple risks.
- (e) ***Seizing opportunities*** – By considering a full range of potential events, management is positioned to identify and proactively realise opportunities.
- (f) ***Improving deployment of capital*** – Obtaining robust risk information allows management to effectively assess overall capital needs and enhance capital allocation.

These capabilities inherent in enterprise risk management will help the Municipality to achieve its performance and service delivery targets, and prevent loss of resources. Enterprise risk management will ensure effective reporting and compliance with laws and regulations, and help to avoid damage to the Municipality's reputation and associated consequences.

#### 5. POLICY OBJECTIVES

The objectives of the Policy are to:

- (a) Promote the Public Sector Risk Management Framework in order to create a favourable risk management culture at all levels within the Municipality and to improve risk transparency.
- (b) Maximise value and net worth by managing risks that may impact on the defined financial and performance drivers of the Municipality.
- (c) Assist the Municipality in enhancing and protecting those opportunities that represent the greatest service delivery benefits.
- (d) Provide clarity in respect of the roles and responsibilities of the various key stakeholders in the Enterprise Risk Management value chain.
- (e) Provide a framework for Enterprise-wide Risk Management



## 6. POLICY SCOPE AND APPLICATION

The effectiveness of the Municipality's efforts to entrench a culture of risk management applies to all municipal officials and political office bearers of the Municipality.

Therefore the Policy applies to all these key stakeholders.

## 6 ENTERPRISE-WIDE RISK MANAGEMENT MATRIX

### 6.1 Risk management within the context of business objectives

The enterprise risk management framework contained in the Policy is geared to achieve the Municipality's objectives as determined in the following five categories:

- (a) **Strategic** – High-level goals, aligned with and supporting its mission
- (b) **Operations** – Effective and efficient use of its resources
- (c) **Safeguarding** – Safeguarding of assets.
- (d) **Compliance** – Compliance with applicable laws and regulations.

(e) **Reporting** – Reliability of reporting.

This categorisation of municipal objectives allows a focus on separate aspects of enterprise risk management and a distinction between what can be expected from each category of objectives.

### 6.2 Enterprise risk management process

The Municipality's enterprise risk management framework focuses on the following components:

(a) **Internal environment** – The internal environment encompasses the risk tone of the Municipality and sets the basis for how risk is viewed and addressed by its key stakeholders. The Municipality will set the risk management philosophy and risk appetite, integrity and ethical values (Code of Ethics) and appropriate structures within which risk management will operate.

(b) **Objective setting** – Objectives must support and align with the Municipality's mission and must be consistent with its risk appetite. Objectives must exist before management can identify potential events affecting their achievement.

(c) **Event identification** – Internal and external events affecting achievement of the Municipality's objectives must be identified, distinguishing between risks and opportunities. Opportunities should be channeled back to management's strategy whereas risks should be assessed.

(d) **Risk assessment** – Risks must be analysed, considering likelihood and impact, as a basis for determining how they should be managed. Risks should be assessed on an inherent and a residual basis.

(e) **Risk response** – Management should select risk responses – avoiding, accepting, reducing, or sharing risk – and develop mitigating strategies to align risks with the Municipality's risk tolerances and risk appetite.

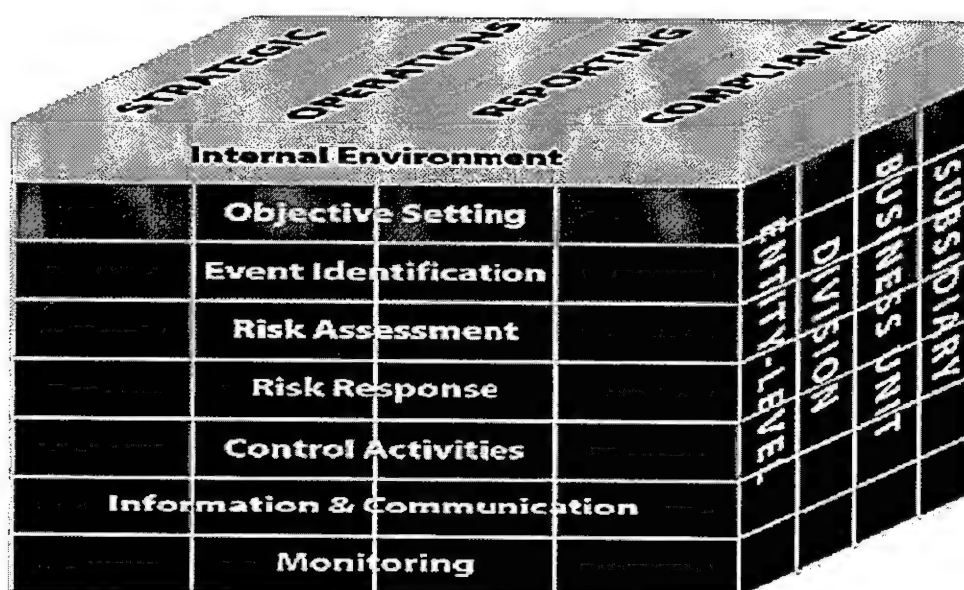
(f) **Control activities** – Policies and procedures should be established and implemented to help ensure that risk responses are effectively carried out.

**(g) Information and communication** – Relevant information must be identified, captured, and communicated in a form and timeframe that enable people to carry out their responsibilities. Effective communication should also occur in a broader sense, flowing down, across, and up the Municipality.

**(h) Monitoring** – The entirety of enterprise risk management should be monitored and modifications made as necessary. Monitoring should be accomplished through on going management activities, separate evaluations, or both.

### 6.3 Alignment of objectives and Enterprise-wide Risk Management Components

There is a direct relationship between objectives, which are what the Municipality strives to achieve, and enterprise risk management components, which represent what is needed to achieve them. The relationship is depicted in a three-dimensional matrix, in the form of a cube as illustrated in Figure 1 below.



**Figure 1: Enterprise-wide Risk Management Matrix**

The objectives categories – strategic, operations, reporting, and compliance – are represented by the vertical columns; the eight components by horizontal rows; and the Municipality's units by the third dimension. This depiction portrays the ability to focus on the entirety of the Municipality's enterprise risk management, or by objectives category, component, directorate, or any municipal entity.

### 6.4 Risk appetite

The Municipality will establish a risk appetite in its various areas of operation. The Risk Officer and management will determine the risk appetite of each directorate or entity as part of effective risk management.

As a principle, and in accordance with the MFMA, the Municipality must have a low risk appetite for all forms of loss resulting from negligence and wasteful or fruitless expenditure. The risk appetite must be clearly stated and articulated so that it informs management decisions.

## **6.5 Risk architecture**

The Municipality's risk management processes will be based on the architecture depicted graphically below, and which contains the following interrelated and interdependent components:

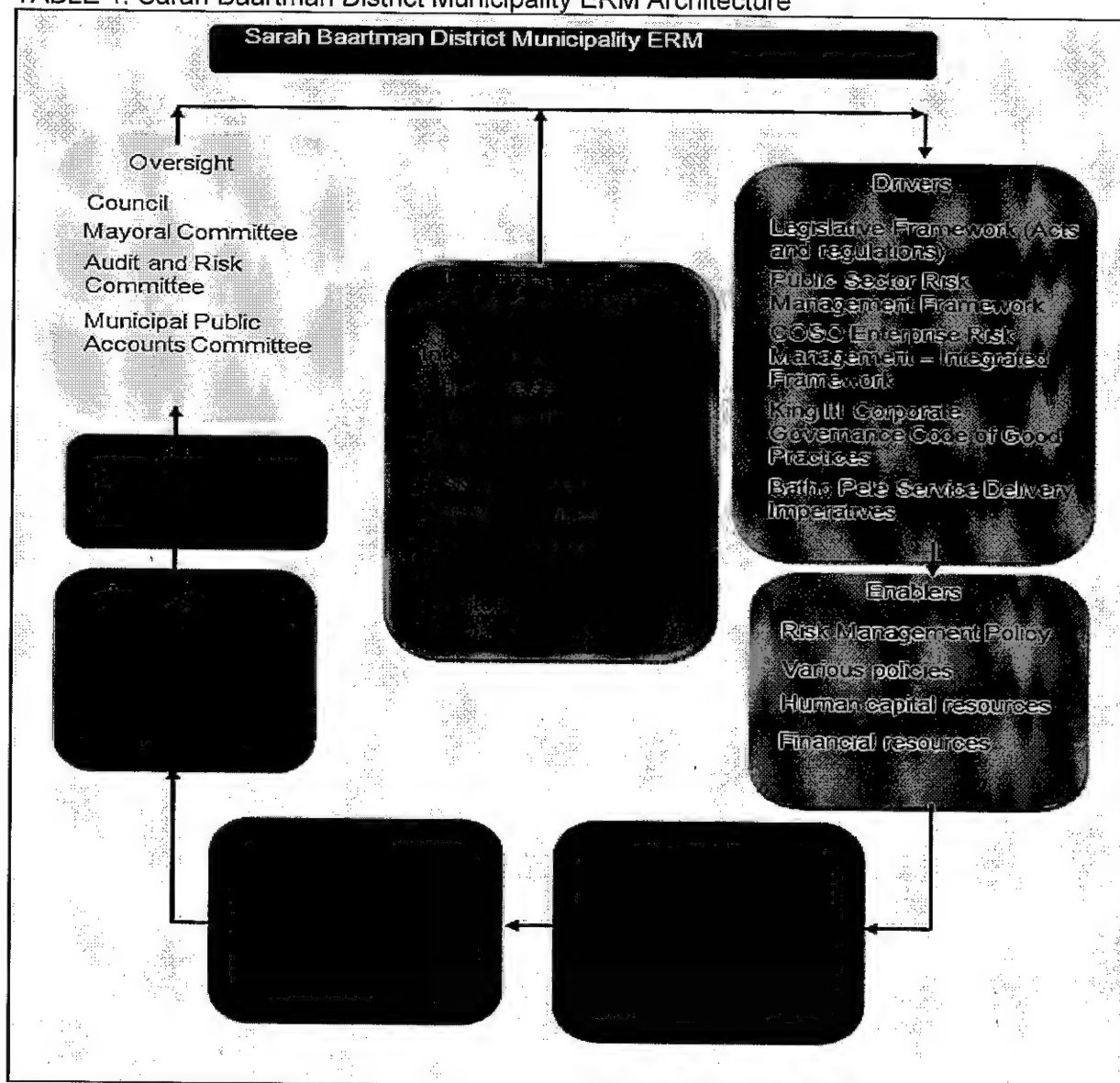
- (a) Process framework.
- (b) Drivers.
- (c) Enablers.
- (d) Human resource capacity consisting of Implementers; support specialists; and assurance providers.
- (e) Tools and technology.
- (f) Oversight framework.

Any successful enterprise risk management implementation is reliant and dependent on an architecture that considers various interrelated and inter-dependent components. To this end, the Municipality risk management processes will be based on the architecture depicted graphically in Table 1.

## **6.6 Risk assessment**

Risk assessment provides a basis whereby the Municipality understands the extent to which potential events may impact on the achievement of objectives. Risks must be assessed from two perspectives: likelihood and impact. A combination of both qualitative and quantitative risk assessment methodologies must be utilized in analyzing the likelihood and impact of identified risks. Risks must be assessed on both an inherent and a residual basis.

TABLE 1: Sarah Baartman District Municipality ERM Architecture



## 6.7 Risk protocols

Various documentation tools must be utilised for analysing and reporting risk management activities. These tools include:

### (a) Risk Registers

The results of the risk assessment process must be documented in a Risk Register. Each directorate must, in the first instance, conduct a risk assessment, facilitated by the Risk Officer, and record the identified risks in the Risk Register. Audit findings from the audits conducted by Internal Audit and the Auditor General must also be recorded in the Risk Register by Directorates.

Directors must maintain risk registers insofar as risks impact on their respective responsibilities. Information from these registers is to be given to the Risk Officer, who will develop and maintain a Municipality enterprise-wide Risk Register.

## ICT Governance

Through its activities in ICT, the municipality continuously seeks to increase its corporate value, and to contribute to its local communities and indeed all stakeholders. Properly assessing and dealing with the risks that threaten the achievement of our objectives, taking steps to prevent the occurrence of these risk events, and establishing measures to minimize the impact of such events if they do occur and to prevent their reoccurrence are assigned a high priority by management. Moreover, we have built a risk management and compliance system for the entire municipality and are committed to its continuous implementation and improvement thereof.

### **(b) Combined assurance plan**

The Risk Officer must develop a combined assurance plan of identified risks, as required by the National Treasury Framework. This process is inseparable from enterprise risk management and is as important as the aforementioned risk information tools.

A combined assurance plan must be compiled from the risk analysis performed. This will enable management to assign resources efficiently to mitigate the risks to an acceptable level and to identify who is responsible for each risk. The Municipality will also, on a continuous basis, be informed of assurance that risks are being managed efficiently, effectively and economically.

### **(c) Risk management reports**

A risk management report providing progress on mitigating actions incorporated in the Risk Register must be submitted to the Oversight Committees on a quarterly basis.

## **6.8 Risk response**

In order to mitigate the identified risks, management must select *risk responses* –and develop a set of actions to align risks with the *Municipality's* risk tolerances and risk appetite.

This must encompass the following:

- (a) Identification and evaluation of possible responses to risk.
- (b) Evaluation of options in relation to entity's risk appetite, cost vs. benefit of potential risk responses, and degree to which a response will reduce impact and/or likelihood.
- (c) Selection and execution of response, based on evaluation of the portfolio of risks and responses.

## **6.9 Roles and responsibilities**

Everyone in the Municipality has some responsibility for enterprise risk management.

The Municipal Manager is ultimately responsible and should assume ownership. Directors and managers should support the Municipality's risk management philosophy, promote compliance with its risk appetite, and manage risks within their spheres of responsibility consistent with risk tolerances.

The Risk Officer must provide key support responsibilities to the various directorates. Other municipal officials are responsible for executing enterprise risk management in accordance with established directives and protocols.

The Council must provide important oversight to enterprise risk management, in ensuring that all activities are performed within the Municipality's risk appetite and tolerance levels. The Audit Committee must monitor the effectiveness of risk implementation practices, as the well as the effectiveness of risk mitigation measures. The specific details of responsibilities are summarised below.

## **SUMMARY OF RISK MANAGEMENT RESPONSIBILITIES**

| <b>Risk management responsibilities for the Council / Municipal Manager</b>   |  |
|---|--|
| <ul style="list-style-type: none"> <li>• Determine strategic approach to risk and set risk appetite</li> <li>• Establish the structures for risk management</li> <li>• Understand the most significant risks</li> </ul>   |  |
| <b>Risk management responsibilities of the Directors / Management</b>   | <b>Risk management responsibilities of individual employees</b>  |
| <ul style="list-style-type: none"> <li>• Build risk aware culture within the directorate</li> <li>• Agree on risk management performance targets</li> <li>• Ensure implementation of risk improvement recommendations</li> <li>• Identify and report changed circumstances /risks</li> </ul>                                      | <ul style="list-style-type: none"> <li>• Understand, accept and implement risk management processes</li> <li>• Report inefficient, unnecessary or unworkable controls</li> <li>• Report fraud, theft, corruption and incidents of override of controls</li> <li>• Co-operate with management on incident investigations</li> </ul> |
| <b>Risk management responsibilities of Risk Officer</b>   |  |
| <ul style="list-style-type: none"> <li>• Develop and maintain risk management policy, strategy and framework</li> <li>• Document the internal risk policies and structures</li> <li>• Co-ordinate the various risk management activities</li> <li>• Compile risk information and prepare reports for senior management</li> </ul> |  |

### **6.10 Limitations of risk management**

While enterprise risk management provides important benefits, however limitations thereto exist. Limitations result from the realities that human judgment in decision making can be faulty; decisions on responding to risk and establishing controls need to consider the relative costs and benefits; breakdowns can occur because of human failures such as simple errors or mistakes; controls can be circumvented by collusion between two or more people; and management has the ability to override enterprise risk management decisions. These limitations preclude Council, Management the Risk Officer from having absolute assurance as to the achievement of the Municipality's objectives. Based on the limitations, the risk assurance provided by various assurance providers is therefore reasonable and not absolute.

### **6.11 Learning and benchmarking**

The Risk Officer must ensure that the Municipality keeps abreast with best practices in risk management. Awareness campaigns must be conducted in this regard in order to enhance the risk management capacity of the Municipality.

## 7. IMPLEMENTATION PROCEDURES

Successful implementation of an enterprise risk management initiative is an ongoing process that involves working through the steps set out below on a continuous basis.

The steps are:

- (a) Planning and designing.
- (b) Implementing.
- (c) Measuring and monitoring.

There should be effective integration of the efforts by all employees and other stakeholders in terms of the established architecture in the implementation of risk management practices. **Table 3** provides an overview of the steps involved in the implementation of an enterprise risk management initiative.

**TABLE 3: Enterprise Risk Management Implementation Summary**

| ACTIVITY  | RESPONSIBLE PERSON                    | OUTPUTS / DELIVERABLES  |
|---|---------------------------------------|---|
| <i>1. Planning and designing</i>  |                                       |   |
| 1 Create awareness of the enterprise risk management initiative and gain management mandate and employee commitment | Risk Officer                          | Benefits of ERM<br>Embedding risk management                                  |
| 1.2 Establish the risk management policy and the roles and responsibilities of key stakeholders                     | Risk Officer                          | Risk management Policy<br>Risk management structures                          |
| <i>2. Implementing</i>  |                                       |   |
| 2.1 Adopt suitable risk assessment procedures and an agreed risk classification system                              | Risk Officer / Management             | Risk description<br>Risk assessment techniques<br>Risk classification systems |
| 2.2 Undertake risk assessments  | Risk Officer / Directors / Management | Risk profile  |
| 2.3 Determine risk appetite and risk tolerance levels, and evaluate the existing controls                           | Risk Officer / Directors / Management | Risk register   |
| <i>3. Measuring and monitoring</i>  |                                       |   |
| 3.1 Ensure cost-effectiveness of existing controls and introduce improvements                                       | Risk Officer / Directors / Management | Control improvement   |



## **8. MONITORING AND EVALUATION**

### **8.1 Internal monitoring**

Monitoring must focus on the effectiveness of the existing controls and the implementation of additional controls, as well as the cost-effectiveness of the existing controls. Additionally, monitoring and measuring must include the evaluation of the risk aware culture and the risk management policy, and an assessment of the extent to which risk management tasks are aligned with other corporate activities.

Monitoring and measuring must extend to the evaluation of culture, performance and preparedness of the Municipality. The scope of activities covered by monitoring and measuring must include the monitoring of risk improvement recommendations and evaluation of the embedding of risk management activities in the Municipality, as well as the routine monitoring of risk performance indicators.

Monitoring the preparedness of the Municipality to cope with major disruption is an important part of risk management. This activity must include the periodic testing of business continuity plans and disaster recovery plans. There is an overriding need to keep these plans up to date so that the preparedness of the Municipality to cope with the identified risk events is assured. The evaluation of the existing controls will lead to the identification of risk improvement recommendations. These recommendations must be recorded in the risk register by way of a risk action plan.

Monitoring activities must provide assurance that appropriate controls are in place and that the procedures are understood and followed. Monitoring and measuring processes must also determine whether:

- (a) measures adopted achieved the intended result;
- (b) procedures adopted were efficient;
- (c) sufficient information was available for the risk assessments;
- (d) improved knowledge would have helped to reach better decisions;
- (e) lessons can be learned for future assessments and controls.

The various monitoring processes must be performed by management and the Audit Committee.

### **8.2 External monitoring**

Section 5(2)(c)(i) of the MFMA states that National Treasury may monitor and assess compliance by municipalities with the MFMA. Section 5(2)(f) empowers National Treasury to take any other appropriate measures to perform its functions effectively. These particular prescripts therefore permit National Treasury to monitor and assess risk management within the local sphere of government. Furthermore, National Treasury should assess the quality of implementation to ensure that implementation does not become an end in itself, but a means to help institutions to understand their risks and manage such risks in a prudent manner.

## **9. POLICY REVIEW**

The *Policy* must be reviewed annually.



## **10. REFERENCES**

In the compilation of this Policy, extensive reliance is made on the National Treasury's Public Sector Risk Management Framework guidelines and templates; COSO *Enterprise Risk Management – Integrated Framework*; ISO 31000 'Risk management – Code of Practice'; King III Corporate Governance Code of Good Practices; and the IIA *International standards for the Professional Practice of Internal Auditing*.